

THE FACTS: IN BLACK & WHITE.

ANNUAL REVIEW 2008

Insurance Australia Group Limited ABN 60 090 739 923



2008: THE RESULTS.

\$7.8b

GROSS WRITTEN PREMIUM

A 5.6% increase from the previous year.

Gross written premium (GWP) is the total amount of insurance premiums we sold to customers.

6.1%

INSURANCE MARGIN

Down from last year's 11.4%.

Insurance margin represents our insurance profit as a percentage of net earned premium.

\$261m

NET LOSS AFTER TAX

A decrease from last year's \$552m profit.

The net result after allowing for income taxes and the share of profit owing to minority shareholders.

22.5cps

TOTAL DIVIDENDS

Comprises an interim dividend of 13.5 cents per ordinary share (cps) and a final dividend of 9cps, fully franked.

Dividends are payments made to holders of IAG's ordinary shares.

61%

EMPLOYEE ENGAGEMENT

Remained level with the previous year.

This is a measure of our Australian employees' engagement drawn from our annual employee survey.

84

CUSTOMER SATISFACTION

Up from 83 last year.

This is an index score of customer satisfaction across claims and sales and service in our largest business, Australian direct insurance.

\$12m

COMMUNITY INVESTMENT

Remained level with the previous year.

This is our total investment (including sponsorships, promotion, administration, donations and employee volunteer hours) across the community in Australia.

61,217t

CO₂ EQUIVALENT EMISSIONS

A 2.2% improvement from the previous year.

This is a measure of IAG's CO₂ equivalent (CO₂e) emissions in Australia and New Zealand (NZ) through, for example, electricity use and paper consumption.

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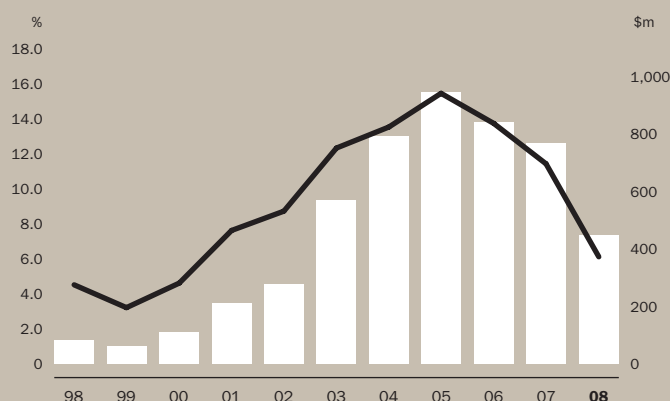
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INSURANCE PROFIT

For the year ended 30 June

— Insurance margin (%) ■ Insurance profit (\$m)



WHAT'S HAPPENED.

INCREASED CLAIMS FROM NATURAL PERILS, UP 22% FROM THE PREVIOUS YEAR

While paying claims for damage from storms and other natural perils is a normal part of doing business for an insurer, IAG's businesses incurred \$502 million natural perils claims costs, which is 22% more than the \$411 million incurred last year.

COMPETITIVE CONDITIONS IN KEY MARKETS

Soft conditions continued in some of our key markets, impacting our financial performance, in particular the Australian and NZ commercial insurance and the United Kingdom (UK) motor insurance markets.

REDUCED INVESTMENT RETURNS

Income on shareholders' funds reduced to \$24 million compared to \$301 million in the previous year. Deteriorating credit markets adversely impacted the value of our bond holdings, however we expect to recover this over time. This reduced our insurance margin by 1.7%.

RESTRUCTURING COSTS

We have implemented changes to our corporate strategy and cost savings initiatives to improve our performance. We incurred \$350 million in impairment charges related to our plan to scale back our UK operations, and the initiatives implemented in our Australian businesses have resulted in a before tax restructuring cost of around \$60 million. The benefits of these changes will be visible in the 2009 financial year and beyond.

HOW WE'RE RESPONDING.

IMPROVING OUR PERFORMANCE IN AUSTRALIA AND NZ

A key priority in our refined corporate strategy is to improve our performance in our home markets of Australia and NZ. Significant operational improvements are expected to deliver annual savings of around \$130 million (before tax) in Australia once fully implemented, and we'll benefit from annual savings of \$16 million (before tax) in NZ. A major focus will be to better understand our customers' needs and provide superior customer experiences.

PURSuing SELECT INTERNATIONAL GROWTH, SCALING BACK IN THE UK

We will continue to pursue select, complementary international growth, but we're scaling back our UK operations to focus solely on the more specialised and profitable segments, principally our successful Equity Red Star specialist underwriting business. This means we will sell some of our UK based mass market underwriting and distribution businesses.

MORE STREAMLINED OPERATING MODEL

We have moved to a new operating model, creating end to end businesses aligned around customers, brands and markets. In this devolved model, accountability and responsibility are closer to the end consumer. This provides our operating businesses the control they need to better execute strategies and manage performance.

IMPROVED OUTLOOK

We expect our refined corporate strategy, coupled with improved operating conditions, to improve shareholder value. During the 2009 financial year, we expect underlying GWP growth of around 3%–5% and reported GWP growth of 0%–2%. Our insurance margin is expected to be above 10%. This guidance is subject to no material movements in foreign exchange rates or credit spreads, and no catastrophes or large losses beyond our allowances.

CHAIRMAN'S REVIEW.



A DIFFICULT YEAR AND A DISAPPOINTING RESULT

During the past year, a wide range of factors adversely affected IAG, resulting in a very disappointing financial performance in 2008. The board accepts responsibility for those factors within its control, and as a result has initiated a program of decisive changes, outlined in this report.

ADVERSE CONDITIONS AFFECTING THE WHOLE MARKET

Difficult trading conditions were experienced across the entire Australian general insurance industry. More severe and frequent weather events caused higher levels of claims costs. At the same time, the commercial insurance markets saw soft conditions with very competitive premium levels. In an unfortunate coincidence of timing, returns on investments in the share market were negative and extra costs have been incurred from wider credit spreads. All of these pressures reduced profitability across the industry.

UK OPERATIONS

In addition to these industry challenges, part of IAG's operations in the UK, the mass market underwriting and distribution businesses, performed poorly. These businesses represent around 6% of the Group's revenue (GWP).

We entered the UK market at a time when pricing and underwriting conditions were widely expected to improve. However, the rate of recovery in the market has been slow and we now expect it will take several years for profitability to be restored.

After considering a range of alternatives, the board and management decided the best option would be to take action and exit from the mass market underwriting and distribution businesses in the UK, and this process is underway.

The other major part of our UK operations, the specialist motor insurance underwriter Equity Red Star, continues to perform well and operate profitably.

SIGNIFICANT CHANGES IN MANAGEMENT AND STRATEGY

The board clearly recognised the need for major changes to occur to improve our profitability in terms of realising the potential of our valuable brands and businesses.

Following the resignation of Michael Hawker, Michael Wilkins was appointed as CEO. Michael Wilkins has more than 25 years of insurance and financial services experience. Before joining IAG in November 2007 as chief operating officer, he was managing director of Promina (the former owner of insurers AAMI, Vero and Australian Pensioners Insurance Agency). He is well qualified to lead IAG as it embarks on a new direction.

In early July, Michael Wilkins outlined to the market a revised strategy and business operating model, changes in the management team, substantial cost reductions, and the exit from some parts of our UK operations mentioned earlier.

THE 2008 YEAR HAS BEEN ONE OF IAG'S MOST CHALLENGING, WITH A WIDE RANGE OF FACTORS SEVERELY AFFECTING OUR FINANCIAL PERFORMANCE. WE HAVE TAKEN DECISIVE ACTIONS TO IMPROVE PERFORMANCE AND, ULTIMATELY, SHAREHOLDER VALUE.

We believe this revised strategy and operating model will restore value and profitability. Further details on this, and the Group's results for the 2008 financial year, are contained in the CEO's review.

On behalf of the board, I would like to convey my thanks to former CEO Michael Hawker, who made a significant contribution to the Group.

BOARD CHANGES

In addition to the management team changes mentioned above, the board is also undergoing renewal with the retirement from 31 August 2008 of Neil Hamilton and Rowan Ross. These directors were instrumental in guiding the Group through a period of growth and development after demutualisation, and I thank them for their contribution.

A new non-executive director, Philip Twyman, has been appointed.

Philip has extensive business experience, particularly in the insurance sector, working in significant roles in both Australia and the UK. He was formerly a director of Insurance Manufacturers of Australia, a joint venture between IAG and the Royal Automobile Club of Victoria (RACV), and a group executive director of Aviva plc, one of the world's largest insurance companies. Previously, he held a number of senior executive positions in Aviva, AMP and General Accident plc.

We will also continue to look to strengthen the composition of the board through the appointment of new directors with relevant experience.

CHAIR ROLE

I intend to stand for re-election at the annual general meeting in November 2008, on the basis of providing continuity and stability during the major changes in management and strategy. At the same time the board is aware of the need for a planned and orderly succession in the Chair role and is addressing this issue in accordance with proper governance principles.

QBE TAKEOVER PROPOSAL

QBE Insurance, which mainly operates in international commercial insurance markets, sought to take advantage of the current better insurance cycles in its business to attempt to acquire IAG at a low price in this current negative cycle in Australia.

Whilst QBE described its approach as a 'friendly merger', it required control, without offering a satisfactory premium to IAG shareholders for the significant benefits it sought to capture. There was little discussion by QBE on quantifying these benefits and how they should be shared.

QBE did not make a formal or complete offer at any stage, but instead stipulated it required a unanimous recommendation from the board of IAG to provide the support necessary to carry a Scheme of Arrangement with shareholders. QBE declined to put a general takeover offer to IAG shareholders, which could have been judged on its own merits.

The IAG board acknowledged (and still believes) that substantial benefits could result from combining these businesses and indicated its willingness to explore these. However, the proposed price was too low to adequately reflect the inherent value of IAG's businesses and brands. The board could not recommend this takeover proposal and, as a result, QBE decided to withdraw it.

The acquisition formula proposed would have been mainly paid in QBE shares, which meant that the implied value of the proposal fluctuated depending on relative movements in the two share prices.

The IAG board did not consider it was being offered sufficient transparency or time to properly assess the QBE share value as a basis for recommending such an exchange to IAG shareholders.

Since the proposal was withdrawn, we have focused on driving forward with our new strategies to enhance shareholder value.

CAPITAL

IAG's capital position remains strong. At 30 June 2008, we had a multiple of 1.62 times our minimum regulatory capital requirement.

We also maintain the highest financial strength ratings from Standard & Poor's of any Australian based insurer, despite a one notch downgrade to our ratings during the year. Our very strong rating of 'AA-' for each of our key wholly owned insurers is a reflection of their financial condition.

DIVIDENDS

Your board has decided not to continue paying dividends which exceed 100% of our profit in these difficult times.

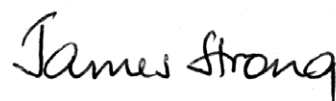
As a result, we will pay a fully franked dividend of 9 cents per ordinary share (cps) on 3 October 2008. This brings total dividends for the year to 22.5cps, fully franked, down 7cps from the previous financial year.

LOOKING FORWARD

I am confident we are implementing the right strategy and operating structure and have the management team to improve our financial performance.

For the 2009 financial year, we are targeting an insurance margin in excess of 10% and dividends will be based around a target payout range of 50%–70% of reported cash earnings, and will continue to be fully franked for the foreseeable future. This guidance is subject to no material movements in foreign exchange rates or credit spreads, and no catastrophes or large losses beyond our allowances.

I believe the actions being taken should give shareholders confidence that we are building a stronger future for your company.



JAMES STRONG
Chairman

CEO'S REVIEW.

In my first report to you as Chief Executive Officer, I would like to start by saying I feel very honoured to be given the opportunity to lead a company with such a strong heritage, iconic brands and long track record in helping customers in times of need.

However, there is no doubt the recent past has been challenging for the Group.

Increased claims costs relating to more severe and frequent natural perils, coupled with continuing difficult trading conditions in key insurance markets and widening credit spreads, have severely impacted our performance for the 2008 financial year.

While these factors have been felt across the entire Australian general insurance industry, we are not making excuses for poor performance. We have acknowledged we need to do better, and have undertaken a thorough review of all aspects of the organisation.

We are now in the process of implementing the results of the review, including a refined corporate strategy and operating model, designed to significantly improve performance.

REFINED CORPORATE STRATEGY

Some time ago, IAG took a strategic decision to focus on general insurance rather than branching out into other classes of insurance or businesses. This hasn't changed—our business remains focused on general insurance.

Our refined strategic intent is to create a portfolio of high performing, customer focused, diverse operations that provide general insurance in a manner that delivers superior experiences for stakeholders and creates value for shareholders.

Taking this portfolio management approach should enable us to deliver a more consistent performance, despite owning a group of general insurance businesses operating at different stages in both economic and insurance cycles.

We'll be measuring our financial success based on two key targets which we aim to achieve through the cycle—to deliver top quartile total shareholder return and a return on equity greater than 1.5 times our weighted average cost of capital. This equates to a return on equity of around 15% through the cycle.

Meeting customer and employee measures across each business will be critical to our success, and at the Group level our clear focus is on sustainable profitability.



OUR FINANCIAL RESULTS NEED TO IMPROVE. WHILE THE FUNDAMENTALS OF OUR BUSINESS REMAIN STRONG, WE ARE TAKING IMMEDIATE ACTIONS TO IMPLEMENT A REFINED CORPORATE STRATEGY WHICH, COUPLED WITH IMPROVEMENTS IN OUR OPERATING ENVIRONMENT, WILL LIFT OUR PERFORMANCE MOVING FORWARD.

Our refined strategic priorities are to:

- improve performance in Australia and NZ, the Group's two biggest markets;
- pursue select international growth opportunities, particularly in Asia and other specialist markets in which we operate;
- establish a devolved operating model with the businesses given end to end authority, accountability and responsibility for performance; and
- drive operational performance and execution.

DELIVERING OUR REFINED STRATEGY

We have taken immediate action to implement our refined strategy, as highlighted below.

Improving performance in Australia and New Zealand

A key priority is to refocus on our home markets of Australia and NZ.

Our largest business, Australian direct insurance—which operates under brands including NRMA Insurance, SGIO and SGIC—delivered an insurance margin of 11.1% during the year. This is an acceptable margin, but one we think we can improve further by delivering superior, differentiated customer experiences and ensuring we manage our costs.

Our intermediated insurance business in Australia, CGU, continued to face challenging, soft commercial insurance market conditions. In line with our strategy, we maintained our pricing discipline and as a result, lost some market share. We believe conditions are now starting to improve, and expect CGU's underlying insurance margin to benefit from targeted rate increases and efficiency initiatives.

The profitability of our NZ business was adversely impacted by significant claims from natural perils, including severe storms and the largest losses from an earthquake in many years as well as continued soft commercial market conditions.

We are making significant operational changes to improve our performance across each of these businesses. In Australia, we expect to benefit from before tax annual savings of \$130 million once the initiatives are fully implemented (expected to be from September 2008) and in NZ we will benefit from before tax annual savings of \$16 million from the 2009 financial year.

These initiatives are designed to help us refocus on the best performing parts of our business and reduce expenses. Above all, a major focus will be to better understand our customers' needs and provide superior customer experiences. We will improve how we segment and prioritise our customers, refine our pricing and underwriting disciplines and become more innovative in the products and services we deliver.

Scaling back our operations in the United Kingdom

In the UK, our specialist underwriter, Equity Red Star, maintained its unbroken track record of profitability, but market conditions have presented significant challenges for our mass market underwriting businesses. We don't expect these conditions to substantially improve for at least another two years.

As a result, we have decided to scale back our UK operations, and will concentrate on being a specialist motor insurance underwriter through Equity Red Star. This means we will look to sell or restructure some of our mass market underwriting and distribution businesses.

Pursuing growth in Asia and other select markets

Asia remains an important market for our future growth.

Our existing businesses in Thailand and Malaysia continued to grow during the year and we maintained our focus on creating value and driving profitability through transferring core skills and capabilities.

We'll continue to grow organically, and selectively pursue acquisitions to build on our existing presence in these markets. Our preference is to acquire small, complementary businesses rather than large investments as we consolidate our existing position.

The general insurance markets in India and China are our priority for medium term growth. In India, we announced our plans to establish a general insurance joint venture with India's largest bank, the State Bank of India, providing us with a significant opportunity in this high growth market. We are also assessing a number of general insurance acquisition opportunities in China.

A new operating model

We have moved to a new operating model, creating end to end businesses aligned around customers, brands and markets. In this devolved model, accountability and responsibility are closer to the end consumer. This provides our operating businesses the control they need to execute strategies and manage performance, but within an overall Group framework.

FINANCIAL RESULTS

The success of our refined strategy is imperative to the future success of IAG, however, putting the strategy into action has incurred one off costs which have affected our result for the 2008 financial year.

We incurred \$350 million in impairment charges related to our plan to scale back our UK operations, and the initiatives implemented in our Australian businesses have resulted in a before tax restructuring cost of around \$60 million.

When combined with the financial effects of operating in an environment characterised by continuing soft cycles in some of our key markets, another year of high claims from natural perils and volatile investment markets, these factors contributed to the Group reporting a net loss after tax for the 2008 financial year of \$261 million.

CEO'S REVIEW CONTINUED

Our insurance profit was \$448 million, compared with \$767 million the previous year, which represented an insurance margin of 6.1%, down from 11.4% last year.

The impact of widening credit spreads reduced our result by \$122 million, or 1.7% on the insurance margin. Income generated from shareholders' funds also reduced significantly to \$24 million compared to \$301 million last year.

In this context, the board declared a reduced final dividend of 9 cents per ordinary share (cps). This takes the full year dividend to 22.5cps, fully franked, which is a reduction of 7cps from the previous year.

As mentioned, we know we need to do better. We believe the initiatives we are taking, coupled with improvements in our operating environment, will help us improve our financial performance and deliver an insurance margin in the 2009 financial year in excess of 10%.

OUR EMPLOYEES

Regrettably, our refined corporate strategy also means we have rationalised the number of employee and executive roles across our businesses. Where possible, this has been accomplished through natural attrition and redeployment, but unfortunately there have been redundancies. This is undesirable but necessary to ensure the business can improve its performance. Throughout this process, we have followed procedures to ensure employees are treated fairly and ensure minimal impact to the teams who service our customers.

I would like to publicly acknowledge those employees leaving the Group and thank them for their contribution. In particular, I would like to pay tribute to the former members of the executive team for their outstanding service to the organisation.

I would also like to express my sincere thanks to former CEO Michael Hawker for inviting me into the organisation, and for being so generous with his time while I was learning about our organisation.

On behalf of all employees I'd like to thank Mike for his leadership over the past seven years.

I am very proud of the way our employees have continued to operate professionally and with integrity in the face of the many challenges we have experienced. I'm pleased to report that the overall engagement of our employees remained level with the previous year, based on an employee survey conducted early this year, with many businesses scoring in the 'best employer' zone.

I don't underestimate the amount of hard work and effort contributed by our people and I thank all employees for their ongoing commitment to our organisation. Our people are the key to positioning our business for ongoing success.

IMPROVING OUR SUSTAINABILITY

We view the changes we're making as necessary to ensure we build a stronger organisation for our customers, employees, shareholders and other stakeholders with whom we interact, despite the short term impacts.

Our commitment to improving our performance against non financial measures remains as important as our financial performance improvements. We have integrated a summary of our non financial results into this annual review, on pages 17 to 20.

I'm pleased that our customer satisfaction index score for our largest business, Australian direct insurance remained high at 84, and our businesses introduced a number of sustainable insurance products for customers.

Many of our employee indicators remained stable, however we acknowledge that work and investment must continue to build a motivated, engaged and high performing culture, operating in a safe working environment.

In line with our 2012 carbon neutral commitment, we've made progress in reducing our CO₂e emissions this year. We will continue to support initiatives that improve the energy efficiency of the buildings we occupy which benefits not only the environment, but reduces our own costs.

We are proud to have been included again in the Global 100 Most Sustainable Corporations in the World and Dow Jones Sustainability Indexes. While recognising that these benchmarks illustrate our leadership, the bar is high. We know we must continue to rise to the challenge of exploring new ways to maintain our leadership position by delivering superior outcomes for our customers, employees and shareholders.

POSITIONED FOR THE FUTURE

During the 2009 financial year, subject to the caveats mentioned earlier, we expect our underlying GWP to grow 3%–5%. Reported GWP is expected to grow around 0%–2% due to our strategic decision to scale back our operations in the UK, and the expected effect of the introduction in New South Wales (NSW) of six month compulsory third party (CTP) policies (otherwise known as 'green slips').

We expect our insurance margin to be above 10%. This margin now includes corporate expenses and the NSW insurance protection tax, which were previously reported separately and equal to about 1% of the reported margin.

I firmly believe the fundamentals of our business remain strong and I'm confident that our refined corporate strategy, coupled with improvements in our operating environment, will improve shareholder value.



MICHAEL WILKINS
Managing Director and
Chief Executive Officer

WHERE WE'RE GOING.

IAG IS IMPLEMENTING A REFINED CORPORATE STRATEGY AND OPERATING MODEL, DESIGNED TO IMPROVE OUR PERFORMANCE AND DELIVER SHAREHOLDER VALUE.

OUR BUSINESS

- General insurance products and services.

OUR CORPORATE INTENT

- A portfolio of high performing, customer focused, diverse operations providing general insurance in a manner that delivers superior experiences for our stakeholders and creates shareholder value.

OUR FINANCIAL TARGETS

- Over the cycle, we aim to deliver:
 - top quartile total shareholder return; and
 - return on equity of more than 1.5 times the weighted average cost of capital.

OUR STRATEGY

- Deliver superior performance by actively managing our portfolio of businesses, exiting businesses that do not fit our intent or return hurdles, and driving operational performance and execution in those that do.

OUR STRATEGIC PRIORITIES

- Improve our performance in our home markets of Australia and NZ.
- Pursue selective international growth options—in Asia and other specialist opportunities.
- Implement a devolved operating model.
- Drive operational performance and execution.

WHO WE ARE.

IAG HAS A PORTFOLIO OF GENERAL INSURANCE BUSINESSES, WITH LEADING AND ESTABLISHED BRANDS ACROSS ITS HOME MARKETS OF AUSTRALIA AND NEW ZEALAND, A GROWING PRESENCE IN ASIA, AND OTHER SPECIALIST UNDERWRITING OPERATIONS.

AUSTRALIA



MAJOR BRANDS



SGIO



¹ RACV is via a distribution relationship and underwriting joint venture with RACV Ltd.

NEW ZEALAND



UNITED KINGDOM



HastingsDIRECT

ASIA



THAILAND



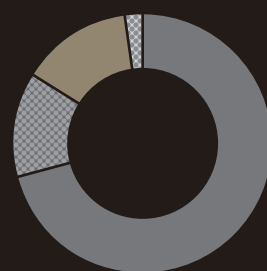
MALAYSIA



² 96% voting rights. ³ 30% owned.

PORTFOLIO MIX BY REGION

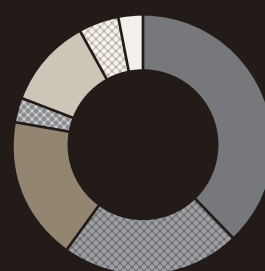
% of GWP for the year ended 30 June 2008



● Australia ● NZ ● UK ● Asia

PORTFOLIO MIX BY INSURANCE PRODUCT

% of GWP for the year ended 30 June 2008



● Motor ● Home ● Short-tail commercial
● Workers' compensation ● CTP
● Liability ● Other short-tail

OUR BUSINESSES

We have some of Australia's leading general insurance businesses and iconic brands. We offer a range of products both direct to customers (through a network of branches, franchises and country service centres, as well as call centres and online) and through intermediary channels (brokers, authorised representatives, financial institutions and motor dealers).

We are NZ's leading general insurance provider across both direct and intermediated channels, holding approximately 36% of the NZ general insurance market.

We have a specialist general insurance underwriter in the UK, Equity Red Star. We are in the process of scaling back our mass market underwriting and distribution businesses.

IGAG has a growing presence in Asia with general insurance interests in Thailand (NZI and Safety Insurance) and Malaysia (AmAssurance). We are also selectively pursuing growth options in India and China.

FINANCIAL PERFORMANCE

	2008	2007
Gross written premium	\$5,494m	\$5,489m
Net earned premium	\$5,169m	\$5,126m
Insurance result	\$486m	\$671m
Insurance margin	9.4%	13.1%

Gross written premium	\$974m	\$968m
Net earned premium	\$845m	\$860m
Insurance result	\$(17)m	\$86m
Insurance margin	(2.0)%	10.0%

Gross written premium	\$1,125m	\$725m
Net earned premium	\$999m	\$592m
Insurance result	\$28m	\$30m
Insurance margin	2.8%	5.1%

Gross written premium	\$174m	\$168m
Net earned premium	\$132m	\$130m
Insurance result	\$3m	\$9m
Insurance margin	2.3%	6.9%

WHERE WE'VE COME FROM.

1925

- National Roads and Motorists' Association (NRMA) starts providing motor insurance to its members in NSW and the Australian Capital Territory.

1969

- NRMA Insurance begins underwriting home insurance.

1994

- NRMA Insurance expands interstate, launching in Victoria.

1995

- NRMA Insurance launches in Queensland.

2001

- NRMA Insurance acquires State Insurance in NZ.
- NRMA Insurance acquires the in-force policies and renewal rights to the HIH Australian workers' compensation businesses.
- NRMA Insurance sells its Building Society.
- NRMA Insurance puts its inwards reinsurance portfolio into run off.

2002

- NRMA Insurance changes its name to Insurance Australia Group (IAG).

2003

- IAG acquires general insurance businesses in Australia and NZ of CGU and NZI from Aviva.
- IAG acquires Zurich Insurance's NSW workers' compensation business.
- IAG sells its health insurance underwriting and claims operation.
- IAG increases its interest in China's CAA to 100%.

2004

- IAG sells its financial services business, ClearView.
- IAG's NZ business acquires a 50% interest in Mike Henry Travel Insurance.

1997

- NRMA Insurance acquires MLC Building Society.

1998

- NRMA Insurance acquires an interest in Thailand's Safety Insurance.
- NRMA Insurance acquires SGIO (including SGIC).

1999

- NRMA Insurance signs a joint venture agreement with RACV.
- NRMA Insurance acquires an interest in China's CAA.

2000

- NRMA Insurance Group Limited lists on the Australian Securities Exchange (ASX).

2005

- IAG's NZ business acquires specialist underwriters National Auto Club and Clipper Club Marine.
- IAG acquires Royal & SunAlliance's general insurance business in Thailand.
- IAG acquires a 30% interest in Malaysia's AmAssurance.

2006

- IAG increases its interest in Safety Insurance in Thailand to almost 100%.
- IAG's NZ business acquires a 51% stake in mechanical warranty insurance company DriveRight.
- IAG acquires a Lloyd's managing agency and specialist Asian syndicate, branded Alba Group.
- IAG's NZ business increases its interest in Mike Henry Travel Insurance to 100%.
- IAG acquires Hastings Insurance Services and Advantage Insurance in the UK.

2007

- IAG acquires Equity Insurance Group in the UK.

2008

- IAG's UK business acquires specialist insurance broker Barnett & Barnett.
- IAG enters negotiations to form Indian general insurance joint venture with the State Bank of India.
- Following a strategic review, IAG revises its corporate strategy. As a result IAG will scale back some of its UK mass market underwriting and distribution businesses.

OUR PERFORMANCE.

FOLLOWING A MASSIVE HAILSTORM IN WESTERN SYDNEY, NRMA INSURANCE QUICKLY MOBILISED IN RESPONSE, WITH INNOVATIVE SOLUTIONS TO HELP CUSTOMERS.

AUSTRALIA DIRECT INSURANCE

FINANCIAL PERFORMANCE	2008	2007
Gross written premium	\$2,941m	\$2,889m
Net earned premium	\$2,806m	\$2,788m
Insurance profit	\$312m	\$451m
Insurance margin	11.1%	16.2%

MAJOR EVENTS IN 2008

- Severe storms increased claims costs.
- Industry remained competitive but pricing was rational, with premium increases reflecting higher claims costs.
- Our customer satisfaction and renewals remained high.

OPERATIONAL REVIEW

Our Australian direct insurance division, IAG's largest business which contributes about 38% of the Group's revenue, grew GWP by 1.8% during the year to around \$2.9 billion.

We saw our strongest GWP increases in NSW, Queensland and Western Australia. Nationally, our short-tail portfolio (home and motor insurance) grew GWP by 3.9% and we maintained our NSW CTP market share at around 38% (as measured by car registrations).

Our insurance profit was \$312 million compared with \$451 million in the previous year. A major contributor to this decline was increased storm costs during the year, most notably the severe storms which struck western Sydney in December 2007.

We also experienced higher repair costs, lower releases from prior years' claims reserves and the impact of widening credit spreads. These factors contributed to a decline in our insurance margin.

Premiums have increased across most personal insurance lines to reflect the increased claims costs.

Our customer satisfaction index score remained high at 84 and retention rates among our home and motor insurance customers continued to exceed 83%.

OUTLOOK FOR 2009

We are focused on tightly managing expenses and claims costs and ensuring risks are priced appropriately to position our business to improve returns. We will deliver a substantial portion of the Group's \$130 million annual savings (before tax), with initiatives tracking to schedule.

Above all, our aim is to better understand our customers' needs and provide superior customer experiences.



NRMA INSURANCE FRONT OF THE PACK FOR CUSTOMER HELP

In the days following the destructive December 2007 storm, NRMA Insurance received more than 25,000 claims, equalling the number usually received from this area in six months.

Teams from across the business quickly mobilised to begin the mammoth repair and rebuilding effort. A catastrophe assessment centre was opened where more than 2,000 motor claims were assessed weekly—a ten fold increase for the region.

The home repair process was complicated by a shortage of tradespeople over the summer holiday period and prolonged, unseasonably wet weather. In almost half of the 60 days after the storm, rain either disrupted or prevented roof repairs.

The industry attracted criticism from media, government and residents who believed insurers were taking too long to fix customers' homes.

NRMA Insurance stood out from competitors for its determination to battle through the wet weather and fulfil its insurance promises. In conjunction with suppliers, NRMA Insurance pioneered an 'umbrella' repair system which used a crane to hoist a marquee over damaged roofs while repairs were underway. A scaffold system to cover roofs was also used.

NRMA Insurance was the only insurer able to complete wet weather repairs and the extraordinary response of NRMA Insurance people during the event drew praise from the then NSW Emergency Services Minister Nathan Rees.

IT'S HARD WORK TO KEEP A SMALL BUSINESS RUNNING. YET FOUR IN FIVE AUSTRALIAN BUSINESSES RISK CLOSING DOWN BECAUSE THEY DON'T HAVE ADEQUATE INSURANCE.

AUSTRALIA INTERMEDIATED INSURANCE

FINANCIAL PERFORMANCE	2008	2007
Gross written premium	\$2,553m	\$2,600m
Net earned premium	\$2,363m	\$2,338m
Insurance profit	\$174m	\$220m
Insurance margin	7.4%	9.4%

MAJOR EVENTS IN 2008

- Challenging conditions as the soft commercial insurance cycle continued.
- CGU remained committed to disciplined pricing.
- Some market share ceded, but underlying insurance margins beginning to improve.

OPERATIONAL REVIEW

Our Australian intermediated insurance division, known as CGU, was restructured in April 2008 to integrate IAG's former commercial insurance and business partnerships businesses. The division now includes all insurance sold through intermediaries, including brokers, authorised representatives, financial institutions and motor dealers, predominantly under the CGU and Swann Insurance brands.

CGU's GWP declined by 1.8% compared to the previous year, reflecting our commitment to maintaining disciplined pricing. Targeted rate increases have resulted in a loss of some business, however, we believe we have a responsibility to continue to price insurance at sustainable levels rather than underpricing those risks.

Winning new business in this environment was very difficult, but CGU's ongoing focus on customer relationships has supported retention rates, which remained steady at around 80%.

Profitability continued to be supported by prior years' claims reserve releases, although at lower levels than last year. Our insurance margin reduced by 2.0% for the year, reflecting declining GWP, lower reserve releases and widening credit spreads.

However, the underlying performance is beginning to improve through a focus on profit rather than growth, strict control of expenses and productivity improvements. We also continued to introduce initiatives to differentiate CGU through innovative products and services, such as Right Cover (see case study).

OUTLOOK FOR 2009

GWP growth is expected to remain flat for the coming year as we focus on restoring profitability rather than pursuing unprofitable market share.

The underlying insurance margin is expected to improve as we realise the benefits of targeted rate increases and efficiency initiatives, which will help us deliver a portion of the Group's \$130 million annual savings (before tax).



CGU'S RIGHT COVER MEANS NO MORE RISKY BUSINESS

CGU's research shows four out of five Australian businesses are underinsured, on average by as much as 38%.

That's why CGU has developed Right Cover, an innovative, simple and cost effective service designed to ensure small businesses get the right level of insurance.

As part of Right Cover, a loss adjuster will review a small business owner's assets, trading profits and insurance requirements and produce a comprehensive report, including insurance recommendations.

When the business owner accepts and implements these recommendations, CGU will increase their insurance policy limit by a further 20% above the recommended levels, at no additional cost.

And while the price of the service, which has been developed to be affordable for small and medium enterprises, is only paid once, these benefits continue to apply to business insurance policies for an agreed period, as CGU will automatically index the sums insured by the consumer price index.

Having the right level of insurance can make all the difference when risk becomes reality.

Right Cover is just one of the ways CGU is developing innovative products and services to differentiate our business and provide superior customer experiences.

OUR PERFORMANCE.

SUSTAINABLE INSURANCE PRODUCTS HELP NZI STAND OUT, WHILE HELPING CUSTOMERS REDUCE THEIR CARBON FOOTPRINT.

NEW ZEALAND

FINANCIAL PERFORMANCE	2008	2007
Gross written premium	\$974m	\$968m
Net earned premium	\$845m	\$860m
Insurance profit/(loss)	\$(17)m	\$86m
Insurance margin	(2.0)%	10.0%

MAJOR EVENTS IN 2008

- Industry profitability at a seven year low*.
- Claims costs increased significantly, including severe storms and the largest losses from an earthquake for many years.
- Commercial insurance market remained soft, but is improving.

OPERATIONAL REVIEW

GWP grew 2.4% in local currency terms during the year. Offsetting this growth, claims costs increased almost 14% more than the previous year to over \$600 million, which contributed to our NZ businesses recording a loss.

The increased claims resulted primarily from severe natural catastrophes, including extreme floods in Northland and an earthquake in Gisborne. Combined, these events cost the general insurance industry more than \$90 million*. We also experienced an unusually high number of claims throughout the year, and repair costs rose. As a result, premiums increased across most insurance classes.

In a year of significant claims and hardening rates, it's pleasing to see customer satisfaction remained high at 87%. Retention also remained stable.

In our intermediated business, operating under the NZI brand, we grew our share in key segments, expanded our product range and focused on deepening our strategic business partnerships. We are proud that NZI was awarded Insurer of the Year by the Insurance Brokers Association.

In our direct business, under the State brand, customers were migrated to a new technology platform which will allow a more granular approach to pricing. We were not active in marketing during the migration which contributed to slower growth, but a new campaign is expected to support growth in this business.

OUTLOOK FOR 2009

Our GWP growth and insurance margin are expected to improve as NZI benefits from hardening commercial insurance rates and our direct business regains momentum.

In addition, productivity initiatives have reduced our cost base, and we expect annual savings of \$16 million per annum before tax going forward from 2009.

* Source: Insurance Council of New Zealand.



NZI DELIVERS SUSTAINABLE CUSTOMER SOLUTIONS

It's not enough to be sustainable yourself. You also need to help others reduce their environmental footprint.

That's the philosophy behind NZI's suite of sustainable insurance products, the first of their kind to be offered to NZ consumers.

NZI's personal insurance policies reward customers for being energy efficient, at home and on the road.

Features of the products include:

- a 10% discount for those who drive less than 5,000 kilometres a year—or 15% if those customers also drive a hybrid or fuel efficient vehicle;
- home building contents cover which enables customers to replace whitegoods with energy efficient equivalents; and
- up to an additional \$20,000 cover on building claims to install sustainable features when rebuilding after a total loss.

The products differentiate NZI in a business environment where customers increasingly want to deal with sustainable companies.

Our businesses in NZ are also focusing on their own environmental performance—over the last three years, office paper consumption has fallen by 26%, fuel use has dropped 21% and air travel has reduced by 12%, and we are relocating to a 5 Star Green Star rated office in Auckland.

EQUITY INSURANCE GROUP'S INSUREPINK—PROVIDING AFFORDABLE INSURANCE FOR CANCER SURVIVORS.

UNITED KINGDOM

FINANCIAL PERFORMANCE	2008	2007
Gross written premium	\$1,125m	\$725m
Net earned premium	\$999m	\$592m
Insurance profit	\$28m	\$30m
Insurance margin	2.8%	5.1%

MAJOR EVENTS IN 2008

- Challenging operating environment, with increased price competition among private motor underwriters.
- Specialist motor classes continued to trade profitably.
- Revised strategy will lead to scale back of IAG's UK operations.

OPERATIONAL REVIEW

IAG's UK businesses, which contributed around 14% to the Group's GWP in their first full year of operations, recorded an insurance profit of \$28 million, down from \$30 million achieved in the previous year. Its insurance margin reduced from 5.1% to 2.8% during the year.

The profit decline was driven primarily by deterioration in the performance of our mass market underwriting businesses which were severely impacted by challenging market dynamics, particularly in the private motor insurance sector. As more customers turn to the internet to source insurance, the number of comparison websites or aggregators has grown, leading to considerable price competition, customer churn, narrower margins and a reduced opportunity to benefit from direct contact with customers.

These factors contributed to our decision to revise our strategy in the UK. Moving forward, we will concentrate on being a specialist motor insurance underwriter through Equity Red Star, and will divest or restructure our mass market distribution businesses.

We are pleased to report Equity Red Star maintained its unbroken track record of profitability during the year. We expanded these operations to take advantage of the stable conditions and acquired specialist broking network, Barnett & Barnett, to support distribution.

OUTLOOK FOR 2009

The outlook for our specialist underwriting business, Equity Red Star, is favourable. We expect to benefit from rising rates and our concentration on ongoing underwriting and cost discipline.

While lower revenue growth will result from our decision to scale back our UK operations, we expect to improve profitability as we implement our revised strategy.



CHANGING INSURANCE FOR THE BETTER

After a battle with breast cancer, Fiona Macrae decided to take a holiday to recuperate. The only thing standing in her way was her inability to find reasonably priced travel insurance.

Many insurance companies asked distressing, personal questions, and upped their quotes by at least £150 (around \$320) because she had suffered from breast cancer.

Fiona, who is now a Corporate Social Responsibility Executive at Equity Insurance Group, decided to do something about the problem—to develop a travel insurance product.

Now, through the **insurepink** brand, Equity offers reasonably priced travel insurance to breast cancer sufferers, without distressing questions or loaded premiums. Motor and home insurance are also available.

Fiona's goal was not only to provide affordable insurance, but also to support the groups which support cancer sufferers.

As a result, **insurepink** supports the Pink Ribbon Foundation with a donation for every policy sold. Currently, more than £1,000 (around \$2,100) a week is being raised through travel, motor and household insurance. And we're proud that **insurepink** was a finalist in the Personal Lines Initiative of the Year category for the UK Broker Awards and for the Insurance Services to Charity Award in the Charity Times Awards.

More recently, **insureblue** has been launched, offering a similar range of policies, with the addition of motorcycle insurance, for men diagnosed with testicular or prostate cancer. Donations from this are made to Everyman, the UK's leading male cancer campaign.

OUR PERFORMANCE.

INDIA PRESENTS A UNIQUE OPPORTUNITY FOR IAG, WITH A POWERFUL COMBINATION OF LOW INSURANCE PENETRATION AND INCREASING CONSUMER DEMAND.

ASIA

FINANCIAL PERFORMANCE	2008	2007
Gross written premium	\$174m	\$168m
Net earned premium	\$132m	\$130m
Insurance profit	\$3m	\$9m
Insurance margin	2.3%	6.9%

MAJOR EVENTS IN 2008

- Industry market growth in Thailand and Malaysia constrained, reflecting prevailing economic conditions.
- GWP growth in IAG's existing businesses achieved in local currency terms.
- Continued to pursue selective growth in Malaysia, Thailand, India and China.

OPERATIONAL REVIEW

IAG's Asian division, which represented around 3% of the Group's GWP, plays an important role in the Group's future strategic growth.

During the year, the two markets in which we currently have insurance interests—Thailand and Malaysia—both grew, but at more subdued levels than in recent years.

Our Thai businesses grew GWP around 5% in local currency terms, reflecting strong personal insurance lines growth. However, lower investment income contributed to a decline in the insurance margin of these businesses.

Our 30% joint venture business in Malaysia, AmAssurance, increased GWP around 15% during the year, and recorded a breakeven insurance result.

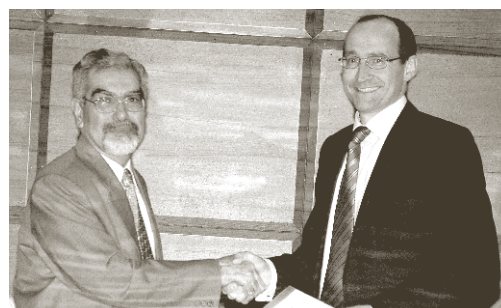
Plans to increase our Malaysian presence progressed as we continued to work towards increasing our 30% interest in AmAssurance, and AmAssurance entered discussions to acquire the general insurance business of Malaysian Assurance Alliance Bhd.

India and China remained priority growth markets. In India, we entered negotiations to form a general insurance joint venture with the largest bank in that country, the State Bank of India.

OUTLOOK FOR 2009

We expect our Thai operations to deliver organic growth over 8% in GWP and improved profitability, despite ongoing difficult economic conditions. GWP growth in excess of 10% is anticipated from our joint venture in Malaysia.

We expect the joint venture with the State Bank of India to commence trading in 2009. We will also continue to pursue selective strategic growth opportunities in Thailand, Malaysia and China.



IAG'S PASSAGE TO INDIA

India's general insurance sector has grown at a compound annual growth rate of 14% over the last five years, and is predicted to grow 15%–20% per annum over the next 10 years.

Not surprisingly, the market has attracted the attention of many insurers worldwide.

IAG now has a significant advantage ahead of a number of major international insurers, having entered exclusive negotiations to form a general insurance joint venture with the country's largest bank, the State Bank of India.

With over 100 million customers, State Bank of India has one of the most trusted brands in India, a heritage dating back over 200 years and is included in Fortune's Global 500.

A joint venture will allow us to combine our core capabilities with the local knowledge and distribution network of one of the largest and most recognised financial services organisations in India.

IAG will bring to the partnership technical and underwriting expertise and capability in pricing and risk management, as well as a proven ability to work successfully with partners in the Asian region.

We expect the joint venture to commence operations in 2009.

This will be a significant step in IAG's Asian expansion strategy, designed to provide medium term growth to supplement our operations in our home markets of Australia and NZ.

AT IAG, SUSTAINABILITY IS ABOUT BRINGING THE FUTURE INTO TODAY'S DECISION MAKING FOR THE BENEFIT OF OUR BUSINESS, CUSTOMERS, SHAREHOLDERS AND COMMUNITIES.

SUSTAINABILITY

For an insurance company, the future is even more important than the present.

Our long term viability depends on our ability to calculate risk based on what we believe will happen not just today, but days, months and years from now. Long term thinking is critical to our success.

Climate change continues to present significant potential risks to the insurance sector. Our collaborative research with the Australian Climate Group this year revealed that the impacts of climate change appear to be arriving sooner and are more severe than the projections made by the Intergovernmental Panel on Climate Change in 2007. Arctic sea ice is melting faster than anticipated, with more rapid consequences for sea level rise, sea surface temperatures and air currents. As a society we need to be prepared to experience more frequent and intense weather events. As an insurer, our challenge is to approach these uncertain risks in a way that is proactive, adaptive and innovative.

This year, we launched several new 'green' insurance products through our NZ business (see page 14). These products provide our customers with an incentive to reduce their own environmental impact while maintaining the delivery of high quality service and peace of mind for our customers.

We continued to take action to reduce our own environmental footprint in line with our commitment to being carbon neutral by 2012. This year, we have reduced our overall CO₂e emissions by 2.2%. This has been achieved primarily by reducing our air travel, and we also continued to actively manage the energy efficiency in the buildings we occupy. Our progress is summarised in the table on page 20.

Our sustainability is also dependent on balancing our social responsibility to the communities in which we operate, our people and our customers. Socially responsible product innovation in our UK operations saw the launch of **insurepink**, insurance policies specifically developed to allow people diagnosed with breast cancer access to affordable cover, while also supporting a UK breast cancer charity, the Pink Ribbon Foundation (see page 15).

Our people are a vital part of ensuring that we are a high performing, customer focused operation. We know that our business sustainability is important to them. In our annual employee survey this year, 72% of our people indicated that they value IAG's focus on balancing its social, environmental and financial responsibilities. We have found innovative ways to enhance flexibility in our workforce, for example through our programs which encourage working from home (see page 19). Overall engagement remains stable and the initiation of a proactive performance management culture has seen some of our leaders actively working to lift engagement levels within their teams.

We are proud to be included again in the Global 100 Most Sustainable Corporations in the World and Dow Jones Sustainability Indexes. While recognising that these industry benchmarks illustrate our leadership in being a sustainable business, we are committed to continuous improvement. We rise to the challenge of exploring new ways to maintain our leadership position whilst delivering superior experiences for all of our stakeholders and creating shareholder value.

OUR SUSTAINABILITY PERFORMANCE IS GLOBALLY RECOGNISED

 <p>Dow Jones Sustainability Indexes Member 2006/09</p>	<p>Dow Jones Sustainability Indexes Ranked one of the world's most sustainable companies. We have been ranked a global sector leader since 2006.</p>
 <p>Global 100 Most Sustainable Corporations in the World</p>	<p>Global 100 Rated one of the Global 100's Most Sustainable Corporations, World Economic Forum.</p>
 <p>CARBON DISCLOSURE PROJECT</p>	<p>Carbon Disclosure Project One of only 25 companies included in the Australia and NZ Goldman Sachs JBWere Climate Disclosure Leadership Index in 2007.</p>
 <p>FTSE4Good</p>	<p>FTSE4Good A member of the FTSE4Good Index since 2005.</p>

An independent third party statement by IAG's Expert Community Advisory Committee (ECAC) that comments on IAG's performance and emerging challenges in relation to economic, social, environmental and cultural outcomes can be viewed online at www.iag.com.au/sustainable/advisory. ECAC comments on performance against internationally agreed indicators in all four domains, provides advice and guidance, and challenges IAG to be a leader in relation to sustainability, social responsibility, workforce development and financial performance.

OUR PERFORMANCE.

IN A GREEN FIRST FOR QUEENSLAND AND AUSTRALIA, NRMA INSURANCE LAUNCHED THE CARBONATORS CAMPAIGN.

CUSTOMER AND COMMUNITY PERFORMANCE INDICATORS

We continued to achieve a high level of customer satisfaction in 2008 across our businesses. We are a member of the London Benchmarking Group and are beginning to define our community investment in accordance with their principles.

	2008		2007	
	AU	NZ	AU	NZ
Customer				
Business volume	11.9m	2.3m	11.8m	2.3m
Customer satisfaction	84	87%	83	85%
Community				
Community investment	A\$11.6m	NZ\$0.7m	A\$12.0m	NZ\$1.1m

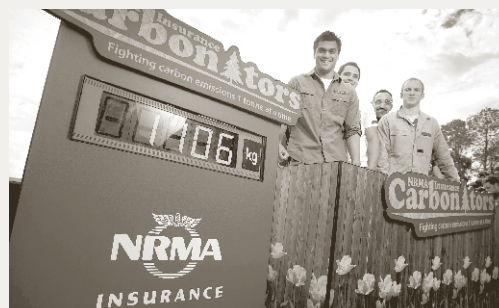


Photo courtesy of Fullframe Photographics

CARBONATORS: BENEFITING OUR CUSTOMERS AND THE COMMUNITY

Enlisting help from the National Rugby League team it sponsors, the Brisbane Broncos—with select players starring as the Carbonators—NRMA Insurance went to market in August 2007 with an advertising campaign and product offer that would mobilise Queenslanders to go green with their car insurance.

By offsetting one tonne of carbon emissions for every new comprehensive car insurance customer at no extra cost to customers, the Carbonators campaign not only put climate change front of mind for many Queenslanders, but made it easy for customers to reduce their own carbon footprint.

NRMA Insurance Queensland State Manager Brett Robinson said the initiative made sense for an insurer and its customers.

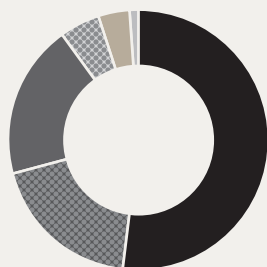
“As an insurer in Queensland, NRMA Insurance is genuinely concerned about the effects of climate change and its impact on our communities, our business and our customers,” he said.

“Research shows a link between increased global temperature and more severe weather events, and we know that carbon emissions are one of the largest contributors to global warming. Carbonators was a great initiative to differentiate our brand and help our customers better understand their impact on the environment, by giving them a simple means to reduce it.”

As at June 2008, the Carbonators campaign had helped Queenslanders offset the same amount of carbon emissions as removing around 9,000 cars from the roads for one year.

COMMUNITY INVESTMENT BY TYPE—AUSTRALIA

For the year ended 30 June 2008



● Sponsorships ● Promotion ● Administration
● Donations ● Volunteer hours ● Research and development

A NEW WORK FROM HOME PROGRAM GIVES OUR PEOPLE FLEXIBILITY AND LETS NRMA INSURANCE RETAIN QUALITY EMPLOYEES.

EMPLOYEE PERFORMANCE INDICATORS

Many of our employee indicators remained stable this year. We will continue to implement programs that support the engagement and development of our people.

		2008		2007	
		AU	NZ	AU	NZ
Workforce					
Full time versus part time employees	Full time	83%	90%	83%	90%
	Part time	17%	10%	17%	10%
Total head count		9,909	2,072	10,185	2,106
Staff turnover		20.3%	20.3%	19.5%	22.4%
Absenteeism		4.7%	4.2%	4.4%	4.3%
Employees represented by unions		13.4%	47.9%	15.4%	52.9%
Employee engagement					
Engagement survey response rate		78%	83%	82%	90%
Employee engagement score		61%	51%	61%	55%
Representation of men and women					
Male to female annual salary ratio		A\$1.37:1	NZ\$1.30:1	A\$1.37:1	NZ\$1.28:1
Women in senior management positions		34%	20%	32%	20%
Women in executive positions		31%	25%	25%	13%
Workplace health and safety					
Lost time injury frequency rate		3.6	0.9	6.2	1.2



WORKING FROM HOME

A 30 second commute and a \$30 saving—it's all in a day's work for Suzi Nicolaou.

Suzi, an Insurance Solutions Consultant with NRMA Insurance, is one of a growing band of NRMA Insurance call centre employees who work from home.

Suzi said the change has made a difference to her family and her bank balance.

"It's made a difference to my family life, especially as I have young children. I can work in school hours and I don't have to worry about after school care for the kids," she said.

"I'm also saving up to \$30 a day on parking, food and petrol. I'm only working part time so that \$30 makes a big difference."

The program is an important part of NRMA Insurance's strategy to attract and retain staff in an increasingly competitive employment market.

The employees taking part in the program have access to the same systems as call centre based staff, and interact with NRMA Insurance customers in the same way.

What is different is the level of flexibility they now have.

"The flexibility that I get from working at home is important to me—it's one of the factors that makes me want to stay in this role," said Suzi.

OUR PERFORMANCE.

MANAGING \$10 BILLION IN FUNDS ON BEHALF OF OUR POLICYHOLDERS AND SHAREHOLDERS IS A RESPONSIBILITY WE TAKE VERY SERIOUSLY.

ENVIRONMENTAL PERFORMANCE INDICATORS

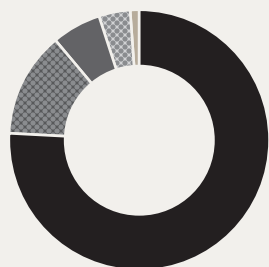
In line with our 2012 carbon neutral commitment, we've made progress in reducing our CO₂e emissions this year. The biggest savings have been achieved through reduced air travel. We will continue to support initiatives that improve the energy efficiency of the buildings we occupy so that we can reduce our electricity consumption.

	2008		2007	
	AU	NZ	AU	NZ
Environmental				
CO ₂ e (tonnes)	58,306	2,911	59,376	3,200
CO ₂ e (tonnes/FTE)	6.5	1.5	6.4	1.6
TOT fuel consumption (kL)*	3,049	397	2,720	392
TOT fuel consumption (kL/vehicle)*	3.4	1.8	3.0	1.7
Air travel (km millions)	26.2	4.4	35.9	7.2
Air travel (km/FTE)	2,926	2,173	3,894	3,526
Electricity (MWh)	40,197	5,416	39,521	5,594
Electricity (MWh/FTE)	4.5	2.7	4.3	2.8
Office paper (tonnes)	320	51	375	58
Office paper (kg/FTE)	35.7	25.6	40.6	28.6
Print paper (tonnes)	1,512	300	1,644	198
Print paper (kg/business volume)	0.13	0.13	0.14	0.09
Recycled waste (tonnes)	740	114	653	121
Recycled waste (kg/FTE)	83	57	71	60

* In 2008, LPG and diesel have been included in Australian tool of trade (TOT) fleet fuel, in addition to petrol. Previous years reported petrol consumption only.

AUSTRALIA AND NZ CO₂e EMISSIONS PROFILE

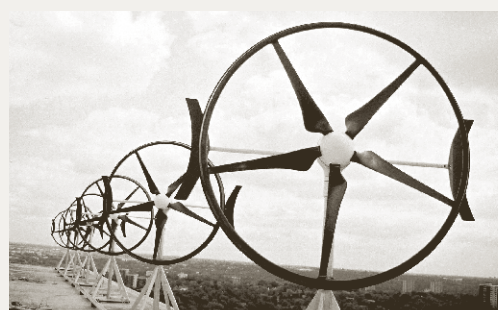
For the year ended 30 June 2008



● Electricity ● TOT fleet fuel
● Air travel ● Print paper ● Office paper

Pages 17 to 20 contain a summary of IAG's performance against sustainability measures. This content has been independently assured by Net Balance Management Group whose assurance statement can be viewed at www.iag.com.au/sustainable/assurance. Additional information can be viewed on our website at www.iag.com.au/sustainable.

Definitions of terms used on these pages can be found on our website.



INVESTING SUSTAINABLY

IAG is committed to generating optimal returns when making decisions about how to invest its funds.

We also align our investment philosophy with our broader sustainability framework, and for some of our investments, this means targeting opportunities to support environmental, social and governance (ESG) issues.

IAG has taken this approach for some years. We were a foundation investor in Generation Investment Management (GenerationIM), established in 2004 by six founding partners including former US vice president Al Gore.

GenerationIM's International Equity Fund was one of the first to integrate sustainability research within a rigorous fundamental equity analysis framework. We are pleased that our investment in this fund has performed well against benchmarks.

During the past year, through our newly established Sustainable Investment Fund, we invested in a new offering from GenerationIM—the Climate Solutions Fund—which invests in companies that are part of the solution to climate change.

We also invested in the Arkx Carbon Fund, which aims to deliver long term returns for investors while contributing to a low carbon economy, and in a microgeneration wind turbine developer.

We became a signatory to the UN Principles for Responsible Investment, a set of voluntary and aspirational principles to help incorporate ESG issues into investment decision making. As part of our responsibility as a signatory, we will encourage our external fund managers to sign.

FIVE YEAR FINANCIAL SUMMARY.

All financial information for 2004 was prepared under previous Australian Accounting Standards (before applying International Financial Reporting Standards).

	2008 \$M	2007 \$M	2006 \$M	2005 \$M	2004 \$M
Gross written premium	7,793	7,381	6,435	6,673	6,427
Gross earned premium	7,765	7,207	6,537	6,561	6,265
Reinsurance expense	(470)	(464)	(405)	(417)	(402)
Net earned premium	7,295	6,743	6,132	6,144	5,863
Net claims expense	(5,155)	(4,474)	(3,900)	(4,090)	(3,815)
Underwriting expenses	(2,124)	(1,862)	(1,699)	(1,624)	(1,500)
Underwriting profit	16	407	533	430	548
Investment income on assets backing insurance liabilities	432	360	310	516	244
Insurance profit	448	767	843	946	792
Investment income from equity holders' and external funds ¹	41	320	537	500	508
Other operating revenue	487	463	218	179	216
Share of net profit/(loss) of associates	(3)	5	2	–	–
Finance costs	(101)	(119)	(86)	(69)	(57)
Corporate and administration expenses	(601)	(455)	(265)	(258)	(268)
Amortisation expenses and impairment charges of intangible assets and goodwill ²	(407)	(73)	(14)	(13)	(118)
Financial services and life insurance result (net)	–	–	–	–	18
Gain on disposal of ClearView retirement services	–	–	–	–	61
Profit/(loss) before income tax	(136)	908	1,235	1,285	1,152
Income tax expense	(90)	(279)	(373)	(357)	(346)
Net profit/(loss)	(226)	629	862	928	806
Net profit attributable to minority interests	(35)	(77)	(103)	(117)	(141)
Net profit/(loss) attributable to equity holders of Insurance Australia Group Limited	(261)	552	759	811	665
Ordinary equity holders' equity (\$ million)	4,204	4,660	3,491	3,378	2,999
Total assets (\$ million)	19,380	21,637	16,972	17,102	16,291
PREMIUM GROWTH					
Gross written	5.6%	14.7%	(3.6%)	3.8%	24.8%
Net earned	8.2%	10.0%	(0.2%)	4.8%	26.5%
KEY RATIOS					
Loss ratio	70.7%	66.4%	63.6%	66.6%	65.1%
Expense ratio	29.1%	27.6%	27.7%	26.4%	25.6%
Combined ratio	99.8%	94.0%	91.3%	93.0%	90.7%
Insurance margin ³	6.1%	11.4%	13.7%	15.4%	13.5%
After tax return on ordinary equity ⁴	(5.9%)	13.5%	22.1%	24.5%	21.1%
SHARE INFORMATION					
Dividends per ordinary share—fully franked (cents)	22.50	29.50	42.00	26.50	22.00
Basic earnings per ordinary share (cents)	(14.29)	32.79	47.66	49.31	37.87
Ordinary share price at 30 June (\$) (ASX: IAG)	3.47	5.70	5.35	6.01	5.00
Reset preference share price at 30 June (\$) (ASX: IAGPA)	85.00	99.80	101.80	103.90	104.70
Reset exchangeable securities price at 30 June (\$) (ASX: IANG)	81.89	100.09	100.00	99.00	n/a
Issued ordinary shares (million shares)	1,878	1,794	1,595	1,594	1,591
Issued reset preference shares (million shares)	4	6	6	6	6
Market capitalisation (ordinary shares) at 30 June (\$ million)	6,517	10,226	8,533	9,582	7,954
Net tangible asset backing per ordinary share (\$)	0.93	0.90	1.22	1.18	0.96

1 This included an unrealised gain on embedded derivatives of \$69 million for 2008.

2 This included impairment charges for acquired identifiable intangible assets and goodwill of \$342 million for 2008.

3 Insurance margin is a ratio of insurance profit over net earned premium.

4 Net profit/(loss) attributable to ordinary equity holders to average ordinary equity holders' equity.

THE BOARD.

IAG'S BOARD OF DIRECTORS IS COMMITTED TO ATTAINING THE HIGHEST LEVEL OF CORPORATE GOVERNANCE TO ENSURE SHAREHOLDERS' BEST INTERESTS ARE BEING SERVED.



JAMES STRONG
AO
Chairman and independent non-executive director

Appointed Chairman in August 2001. Member of the IAG Nomination, Remuneration & Sustainability Committee. Chairman of Woolworths Limited, Rip Curl Group Pty Limited and the Australia Council for the Arts. Director of Qantas Airways Limited and the Australian Grand Prix Corporation.



MICHAEL WILKINS
BCom, MBA, DLI, FCA
Managing Director and Chief Executive Officer

Appointed Managing Director and Chief Executive Officer in May 2008 after joining as Chief Operating Officer and a director in November 2007. Non-executive director of Maple-Brown Abbott Limited.



YASMIN ALLEN
BCom, FAICD
Independent non-executive director

Appointed in November 2004. Chairman of the IAG Audit Committee and member of the IAG Nomination, Remuneration & Sustainability Committee. Director of Macquarie Specialised Asset Management (chairman of its Audit Committee) and Salvation Army Advisory board.



PHILLIP COLEBATCH
BE (Hons), BSc, DBA, SM
Independent non-executive director

Appointed in January 2007. Member of the IAG Risk Management & Compliance Committee. Non-executive director of Lend Lease Corporation Limited and Man Group plc.



HUGH FLETCHER
BSc/BCom, MCom (Hons), MBA
Independent non-executive director

Appointed in September 2007. Member of the IAG Audit Committee. Non-executive director of the Reserve Bank of New Zealand, Fletcher Building Limited, Rubicon Limited and Vector Limited, and Chancellor of The University of Auckland.



NEIL HAMILTON
LLB
Independent non-executive director

Appointed in June 2000. Member of the IAG Risk Management & Compliance Committee. Chairman of IRESS Market Technology Limited, Mount Gibson Iron Limited and Northern Iron Limited. Director of Metcash Limited and Programmed Maintenance Services Limited.



ANNA HYNES
BSc (Hons), MBA
Independent non-executive director

Appointed in September 2007. Member of the IAG Risk Management & Compliance Committee. Previously a non-executive director of Promina Group Limited and Country Road Limited.



ROWAN ROSS
BEc, BCom, FCPA, SF Fin
Independent non-executive director

Appointed in July 2000 and acted as Chairman from April to August 2001. Chairman of the IAG Risk Management & Compliance Committee and member of the IAG Nomination, Remuneration & Sustainability Committee. Chairman of Macquarie Capital Alliance Group, Sydney IVF Limited and Brandenburg Ensemble Limited and a director of the Australian Major Performing Arts Group.



BRIAN SCHWARTZ
FCA, AM
Independent non-executive director

Appointed in January 2005. Chairman of the IAG Nomination, Remuneration & Sustainability Committee and a member of the IAG Audit Committee. Chief executive of Investec Bank (Australia) Limited and deputy chairman of the board of Football Federation Australia Limited.



PHILIP TWYMAN
BSc, MBA, FIA, FIAA, FAICD
Independent non-executive director

Appointed in July 2008. Director of Swiss Re (Australia), Perpetual Limited, ANZ Lenders Mortgage Insurance Limited, Tokio Marine Management (Australasia) Pty Ltd and Medibank Private Limited.

BOARD CHANGES

Neil Hamilton and Rowan Ross will retire from the board on 31 August 2008. Full biographical details of all directors are contained in IAG's 2008 annual report.

DIRECTOR AND EXECUTIVE REMUNERATION.

IAG's approach to executive remuneration is to ensure IAG can attract and retain talented people. Building and retaining a high quality management team will enable IAG to achieve superior performance and create shareholder value.

NON-EXECUTIVE DIRECTORS	SHORT TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL
	IAG board fees received as cash \$000	Other boards and committees fees \$000	Super-annuation \$000	Retirement benefits \$000	\$000	\$000	IAG board fees received as IAG shares \$000	\$000
James Strong Chairman and independent non-executive director	238	195	58	–	–	–	213	704
Yasmin Allen Independent non-executive director	128	66	13	–	–	–	28	235
Phillip Colebatch Independent non-executive director	79	115	15	–	–	–	71	280
Hugh Fletcher Independent non-executive director Appointed 1 September 2007	46	90	13	–	–	–	79	228
Neil Hamilton Independent non-executive director	27	43	13	–	–	–	128	211
Anna Hynes Independent non-executive director Appointed 1 September 2007	108	14	12	–	–	–	18	152
Rowan Ross Independent non-executive director	79	52	18	–	–	–	71	220
Brian Schwartz Independent non-executive director	112	50	13	–	–	–	43	218
Directors who retired during the year								
John Astbury Independent non-executive director Retired 31 August 2007	17	8	3	184	–	–	4	216
Geoffrey Cousins Independent non-executive director Retired 31 August 2007	17	3	2	169	–	–	4	195

The tables on pages 23 and 24 provide an extract from our 2008 remuneration report which is contained in the IAG annual report, available at www.iag.com.au. The remuneration report details the remuneration received during the year by IAG's directors and executives having the greatest authority and responsibility for planning, directing and controlling the activities of IAG, otherwise known as key management personnel (KMP), and includes an explanation of remuneration components and individual circumstances.

DIRECTOR AND EXECUTIVE REMUNERATION CONTINUED

EXECUTIVES									
	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT		TOTAL
	Base salary \$000	Short term incentives \$000	Other \$000	Super- annuation \$000	Long service leave accruals \$000	\$000	Value of deferred 2007 STI granted as DARs \$000	Value of DARs/EPRs/ PARs/shares granted \$000	\$000
Michael Wilkins Managing Director and Chief Executive Officer KMP since 26 November 2007	857	395	–	78	4	–	–	133	1,467
Justin Breheny Chief Executive Officer, Asia	736	226	–	89	6	–	115	261	1,433
Nicholas Hawkins Chief Executive Officer, NZ ¹	648	137	57	89	10	–	115	303	1,359
Jacki Johnson Chief Executive Officer, eVentures	726	280	–	50	13	–	138	232	1,439
Leona Murphy Group Executive, Business Services ² KMP since 3 December 2007	270	145	–	35	1	–	–	18	469
Neil Utley Chief Executive Officer, UK	978	590	–	127	–	–	90	202	1,987
Duncan West Chief Executive Officer, CGU KMP since 29 January 2008	358	229	–	43	2	–	–	20	652
Executives who were key management personnel during the year, but will cease in the 2009 financial year									
Tony Coleman Chief Risk Officer and Group Actuary	713	538	–	93	17	–	134	395	1,890
Christine McLoughlin Group Executive, Strategy, People & Reputation	699	421	–	50	8	–	100	233	1,511
Jan van der Schalk Chief Executive Officer, Asset Management & Reinsurance	634	360	–	50	10	–	69	267	1,390
George Venardos Chief Financial Officer	826	594	–	100	27	–	149	464	2,160
Executives who ceased as key management personnel									
Michael Hawker Former Chief Executive Officer and Managing Director KMP until 26 May 2008	1,561	1,565	–	45	(77)	1,939	174	(1,446)	3,761
David Issa Former Chief Executive Officer, Direct Insurance KMP until 4 July 2008	858	784	–	50	45	1,075	142	405	3,359
Sam Mostyn Former Group Executive, Culture & Reputation KMP until 15 October 2007	155	112	–	21	2	–	32	87	409
Mario Pirone Former Chief Executive Officer, CGU KMP until 29 January 2008	806	580	–	50	29	725	119	408	2,717

1 Nicholas Hawkins was appointed Chief Financial Officer, effective from 29 August 2008. Ian Foy will become Chief Executive Officer, NZ.

2 Leona Murphy was appointed Group Executive, Corporate Office, effective from 29 August 2008.

USEFUL INFORMATION.

ONLINE INFORMATION

To view the 2008 annual report and other important information about IAG, and to manage your shareholding online, visit IAG's website at www.iag.com.au. You can also register to receive email news alerts when IAG makes important announcements.

ANNUAL GENERAL MEETING 2008

IAG's AGM will be held on Tuesday 11 November 2008 at 10am at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, Australia. Details of the meeting, including how to vote, are contained in our notice of meeting which has been mailed to shareholders and is available online at www.iag.com.au.

KEY CONTACT DETAILS

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REGISTERED OFFICE

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Australia

Telephone +61 (0)2 9292 9222
Fax +61 (0)2 9292 8072

Website www.iag.com.au
Email investor.relations@iag.com.au

KEY DATES FOR 2008 AND 2009*

Financial year end	30 June 2008
Full year results and dividend announced	22 August 2008
Final dividend for ordinary shares	
– Record date	3 September 2008
– Payment date	3 October 2008
Annual general meeting	11 November 2008
Half year end	31 December 2008
Half year results and dividend announced	27 February 2009
Interim dividend for ordinary shares	
– Record date	11 March 2009
– Payment date	8 April 2009

* Please note dates are subject to change. Any changes will be published via a notice to the ASX.

**THE FACTS:
IN BLACK
& WHITE.**

ANNUAL REVIEW 2008

Insurance Australia Group Limited ABN 60 000 739 923

ABOUT THIS REPORT

This is IAG's first annual review. It contains a summary of IAG's performance for the 2008 financial year. Detailed information is contained in IAG's annual report which is available by contacting our Share Registry or by visiting www.iag.com.au.

**THE FIGURES:
IN BLACK
& WHITE.**

ANNUAL REPORT 2008

Insurance Australia Group Limited ABN 60 000 739 923

IAG
Insurance Australia Group

OUR MAJOR BRANDS



Australia



New Zealand



United Kingdom



Asia



100% owned unless indicated

¹ RACV is via a distribution relationship and underwriting joint venture with RACV Ltd. ² 96% voting rights. ³ 30% owned.



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We've also used organic vegetable based inks
Organic inks circumvent the hazardous effects of the solvents in ink, because they use vegetable based oils such as linseed, canola or soy instead of petroleum

based oils. Vegetable based oils are, unlike petroleum, a renewable source, and are biodegradable. Organic inks send little or no volatile organic compounds into the air, and produce less toxic waste.

We're pleased with the savings

By providing the option of this new summary annual review and reducing the number of copies as a

result of changes to the law governing corporations, we have saved 86 tonnes of paper from the previous year's annual report print run, which amounts to more than 2,000 trees; 170 barrels of oil; 2.4 million litres of water; and 350,000 kWh electricity.

WWW.IAG.COM.AU