

MEDIA RELEASE

18 DECEMBER 2008

IAG exits mass market distribution businesses in United Kingdom

Insurance Australia Group Limited (IAG) today announced it had agreed to sell its mass market distribution businesses in the United Kingdom (UK) for a total value of £73.5 million (approximately A\$165 million), in line with its strategy to concentrate on its profitable specialist motor underwriting business in that market.

The sale will be effected through two separate transactions:

- IAG's UK insurance branch network will be sold to Swinton Group for £50 million (approximately A\$112 million); and
- IAG's Hastings and Advantage businesses will be sold via a management buy out for £23.5 million (approximately A\$53 million).

These transactions, combined with the costs relating to the recent closure of IAG's specialist Lloyd's syndicate Alba and associated underwriter Diagonal, will result in IAG recognising a pre-tax loss of approximately £40 million (approximately A\$90 million) in FY09. Following completion of the transactions, IAG's capital position will improve slightly.

IAG Managing Director and Chief Executive Officer Mr Michael Wilkins said he was pleased to have finalised these transactions, which complete IAG's major restructuring initiatives under its refined corporate strategy announced in July 2008.

"Since we stated our intention to sell the mass market distribution businesses of our UK operations, we have considered a number of divestment options. We believe the transactions announced today represent the best outcome available to IAG shareholders, particularly in light of the deterioration in market conditions which has occurred since July," Mr Wilkins said.

"The divestment of these businesses means we can now focus on our profitable specialist motor underwriter, Equity Red Star. In FY08, Equity Red Star reported an insurance margin of 10.6% and contributed around 71% of the UK operations' gross written premium.

"Under the ongoing leadership of our UK CEO, Mr Neil Utlely, we will continue to focus on Equity Red Star's underwriting and cost discipline to build on its impressive 37 year track record of profitability," Mr Wilkins said.

Sale of the UK branch network

The branch network of Equity Insurance Brokers consists of 91 high street branches across England and Northern Ireland which are branded Equity Insurance and Open+Direct.

Equity Red Star will continue to benefit from its existing relationship with Swinton Group, with the branch network remaining a distribution channel for Equity Red Star's specialist insurance products.

Sale of the Hastings/Advantage businesses

IAG's remaining mass market distribution businesses, Hastings Direct and its associated underwriter Advantage, together with the internet-based operations which trade under the Insure brands, will be bought by a small team of management and private investors. During FY08, these businesses generated 29% of IAG's UK operations' gross written premium.

The management buy out will be led by Mr Edward Fitzmaurice, Chief Executive of Hastings, and Mr Keith Charlton, Chief Executive of Advantage.

Mr Neil Utley will be a minority shareholder in the management buy out vehicle and will become non-executive Chairman of the separated business, while continuing in his executive role as CEO of IAG UK.

The transactions remain subject to regulatory approvals, and are expected to complete in early calendar 2009.

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About Insurance Australia Group

Insurance Australia Group Limited (IAG) is a general insurance group with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite around \$7.5 billion of premium per annum. It employs around 15,000 people. It sells insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC and Swann (Australia); NZI and State (NZ); Equity Red Star (UK); and NZI and Safety (Thailand). For further information please visit www.iag.com.au

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