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Ms Pam Ross
Manager, Company Announcements Office
Australian Stock Exchange Limited
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Dear Ms Ross

INSURANCE AUSTRALIA GROUP LIMITED ('IAG')

UPDATE OF INVESTMENT MARKET SENSITIVITIES

Insurance Australia Group Limited ("IAG") has updated the sensitivities of the Group's funds under management to movements in investment markets.

Equity exposure

Over the quarter ended 31 March 2003, IAG reviewed the option protection programme in place over its physical equity holdings in the shareholders' fund portfolios. The current protection now extends over approximately 95% (previously around 90%) of the Group's entire $2.1 billion equity exposure. The composition of the protection programme has changed from the structured collar programme ("collar"), which has been highlighted in previous releases, to a combination of collars and "in-the-money" put options ("puts"). The programme of puts provides better capital protection in the event of further equity market weakness but gives up the initial gains if equity markets rally to a certain level. Beyond this, though, the Group's equities will fully participate in the market gains.

The puts comprise 57% of the total protection programme and the collars the remaining 43%. These puts effectively reduce the sensitivity of the Group's exposure to equity market moves from those reported as at 31 December 2002.

As at 31 December 2002, the reported sensitivity to a 1% immediate rise in equity markets equated to a gain of $16.7 million on the combined equity portfolio, including CGU and NZI. The equivalent sensitivity from levels at 31 March 2003 for a 1% rise in equity markets was $10.1 million. The table below highlights the effective exposure for each asset class in the shareholders' fund portfolios, including the option positions.

Shareholders' funds Asset class effective exposure	A$m	%
Domestic equities*	809	35.8%
International equities	212	9.4%
Fixed interest	64	2.8%
Cash	1,173	52.0%
Total	$2,258m	100.0%

* Includes New Zealand equities held in the NZI business.

The sensitivity numbers should be interpreted with care, as the non-linear nature of the tactical option protection progressively increases the Group's sensitivity to larger market gains. To illustrate, the sensitivity of the Group's profit before tax to movements in the market value of its combined equity portfolios as at 31 March 2003 was:

- A 10% rise in the markets would generate a gain of approximately $120.5 million;
- Conversely, the sensitivity to a 1% fall in the equity market would be a loss around $9.2 million; but
- A 10% fall in the markets would generate a loss of approximately $75.0 million.

In addition, whilst the technical reserves' funds continue to have no equity market exposure, the Group has decided to remove the derivative overlay, in conjunction with selling the physical Australian equity holdings, in favour of investing into the physical fixed interest and cash sectors. As at the end of March, this execution had been completed.

Fixed Interest

Interest rate movements drive the sensitivity for the assets in the technical reserves portfolios. The reported sensitivity to a 1% fall in interest rates across the Group (including the small allocation in shareholder funds) at 31 December 2002 was $158.4m (including CGU/NZI). The equivalent sensitivity at 31 March 2003 to a 1% fall in interest rates is around $160.9 million.

Yours sincerely

Anne O'Driscoll

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