

23 February 2012

INVESTOR REPORT

1H12



DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited:

- ASX code for Ordinary Shares: **IAG** (Shares on issue, 31 December 2011: 2,079,034,021)
- ASX code for Reset Preference Shares: **IAGPA** (Listed June 2002)
- ASX code for Reset Exchangeable Securities: **IANG** (Listed January 2005)

London Stock Exchange:

- LSE code for Fixed Rate Subordinated Notes due 2026: **70QG** (£142.4m outstanding at 31 December 2011)

NZX Limited:

- NZDX code for Unsecured Subordinated Bonds due 2036: **IAGFA** (NZ\$325m outstanding at 31 December 2011)

KEY DATES

Interim dividend – ordinary shares

- Ex-dividend date 1 March 2012
- Record date 7 March 2012
- Payment date 4 April 2012

Payment date for IANG and IAGFA quarterly distributions 15 March 2012

Payment date for IAGPA, IANG and IAGFA distributions 15 June 2012

Announcement of full year results to 30 June 2012 23 August 2012

Final dividend – ordinary shares

- Ex-dividend date 30 August 2012*
- Record date 5 September 2012*
- Payment date 3 October 2012*

Payment date for IANG and IAGFA quarterly distributions 15 September 2012

Payment date for IAGPA, IANG and IAGFA distributions 15 December 2012

Annual General Meeting 23 October 2012

Announcement of half year results to 31 December 2012 21 February 2013*

*These dates are indicative dates only and are subject to change. Any change will be announced on ASX.

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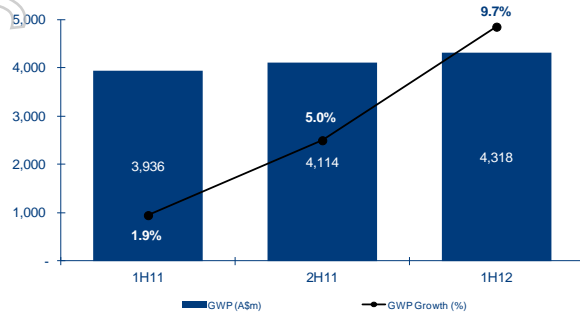
CONTENTS

| | |
|---|----|
| KEY POINTS | 1 |
| 1. EXECUTIVE SUMMARY | 2 |
| 2. STRATEGY | 6 |
| 3. GROUP RESULTS | 8 |
| 4. DIVISIONAL OVERVIEW | 18 |
| 5. AUSTRALIA DIRECT | 19 |
| 6. AUSTRALIA INTERMEDIATED (CGU) | 27 |
| 7. NEW ZEALAND | 34 |
| 8. UNITED KINGDOM (UK) | 39 |
| 9. ASIA | 44 |
| 10. REINSURANCE | 52 |
| 11. INVESTMENTS | 55 |
| 12. BALANCE SHEET & CAPITAL | 59 |
| APPENDIX A – GROUP OPERATING MODEL | 64 |
| APPENDIX B – IAG SNAPSHOT | 65 |
| APPENDIX C – KEY RELATIONSHIPS | 67 |
| APPENDIX D – GEOGRAPHICAL & PRODUCT DIVERSIFICATION | 69 |
| APPENDIX E – KEY ASX RELEASES | 70 |
| APPENDIX F – GLOSSARY | 72 |

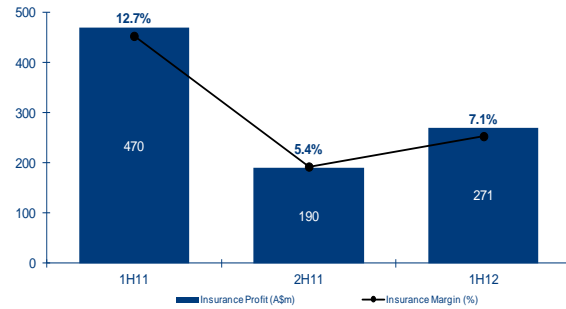
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1H12 GROUP RESULTS

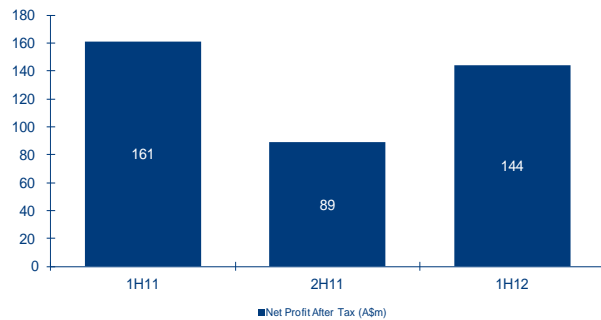
GWP GROWTH



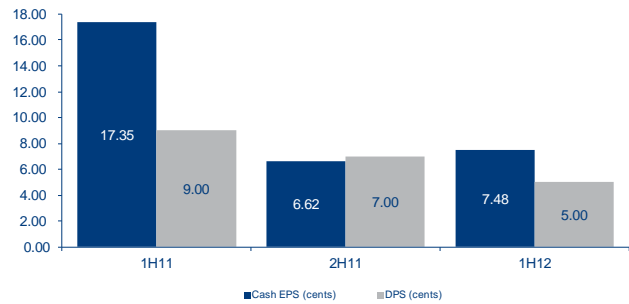
INSURANCE PROFIT & MARGIN



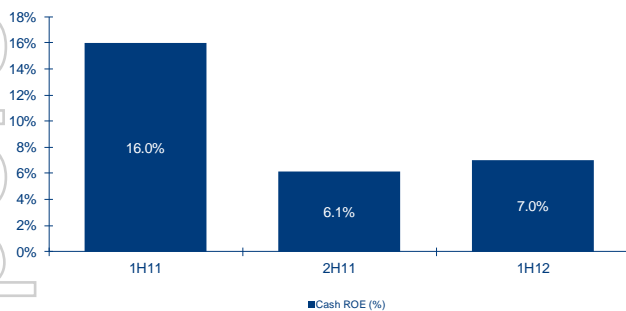
NET PROFIT AFTER TAX



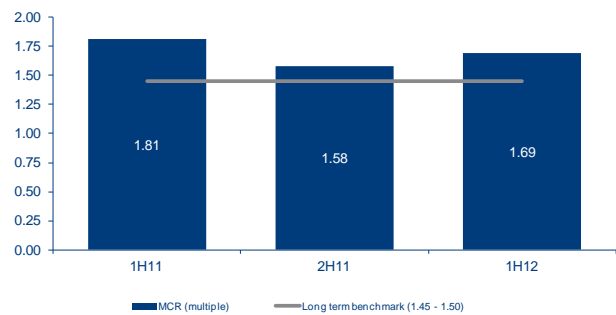
CASH EPS & DPS



CASH ROE



MINIMUM CAPITAL RATIO



KEY POINTS

1H12 OVERVIEW

For the six months to 31 December 2011, Insurance Australia Group Limited (IAG) has announced:

- Gross written premium (GWP) growth of 9.7%, to over \$4.3bn; and
- An insurance margin of 7.1%.

Strong GWP growth was recorded in Australia and New Zealand, and was sourced from rate increases, higher volumes and bolt-on acquisitions.

The Group has achieved an improved underlying margin of 10.7% (1H11: 9.4%), after adjusting for net natural peril claim costs above allowances, reserve releases in excess of 1% of net earned premium (NEP) and credit spread movements. This was in line with expectations, and comprised:

- A strong performance from Australia Direct;
- Further improvement in Australia Intermediated (CGU);
- A return to reported profitability by New Zealand;
- A significantly improved result in the UK, close to breakeven; and
- A sound underlying result from Asia.

The Group's reported insurance margin is after absorption of a negative effect of more than 500 basis points (bps) from:

- Natural peril claim costs which exceeded allowances by \$130m; and
- An \$80m impact from the widening of credit spreads.

The result also included a 56% increase in reinsurance expense to \$356m (1H11: \$228m) and \$112m of reserve releases (1H11: \$103m).

An interim fully franked dividend of 5.0 cents per share (cps) has been determined (1H11: 9.0cps).

At 31 December 2011, the Group's Minimum Capital Requirement (MCR) multiple was well above benchmark at 1.69.

GWP growth of 9.7% and improved underlying margin

OUTLOOK

The Group remains confident of an improved performance in FY12, compared to FY11. A reported insurance margin towards the lower end of the Group's previously stated 10-12% guidance range is now anticipated, largely reflecting the adverse credit spread impact incurred in 1H12, of approximately 100bps on a full year basis. Revisions have also been made to natural peril and reserve release assumptions, which broadly offset one another.

This guidance assumes:

- Net losses from natural perils of \$630m (previously \$580m);
- Net prior period reserve releases of slightly more than 2% of net earned premium (NEP) (previously up to 2% of NEP); and
- No material change in foreign exchange rates or investment markets in 2H12.

GWP growth is now expected to be 8-10% (previously 6-9%).

FY12 insurance margin within 10-12% guidance range, but at lower end

1. EXECUTIVE SUMMARY

1H12 OVERVIEW

In the first six months of the 2012 financial year, IAG has produced an improved underlying operating performance that is in line with expectations, and has made significant progress in the execution of its strategic priorities.

The reported insurance margin of 7.1% in 1H12 is after significant negative impacts from natural perils, higher reinsurance costs and volatile investment markets.

On an underlying basis the Group's insurance margin was 10.7%. This excludes natural peril claim costs above allowances and the impact of credit spread movements, as well as reserve releases above a recurring level equivalent to 1% of net earned premium (NEP).

The insurance profit of \$271m (1H11: \$470m) includes:

- Net natural peril claim costs of \$396m (1H11: \$134m), compared to allowances of \$266m. Notable peril events during the half included the extreme floods in Thailand (August to December 2011) and the Victorian storms (December 2011);
 - A \$128m increase in reinsurance expense to \$356m, including \$110m of reinstatement costs;
 - Reserve releases of \$112m, slightly higher than the previous corresponding period and equivalent to 2.9% of NEP; and
- An \$80m adverse impact from the widening of credit spreads.

GWP growth of 9.7% reflects significant rate increases implemented in Australia and New Zealand to recover higher reinsurance and natural peril allowances. This follows the unprecedented sequence of major natural peril events experienced since FY10. GWP growth from the Australian and New Zealand businesses in isolation, of 10.7%, also includes recent acquisitions (notably in Australia Intermediated) and favourable volume effects.

Investment income on shareholders' funds was a loss of \$30m (1H11: \$147m profit), directly reflecting the significantly weaker equity markets during the period.

Net profit after tax for 1H12 was \$144m (1H11: \$161m), aided by a lower effective tax rate.

Reported ROE in 1H12 was 6.5%, and cash ROE was 7.0%.

The Board has determined to pay a fully franked interim dividend of 5.0 cents per ordinary share, which equates to a cash payout ratio of 67.1%. It remains the Group's policy to pay out 50-70% of full year cash earnings.

1H12 insurance margin of 7.1%, reduced by natural perils and credit spreads

1. EXECUTIVE SUMMARY

DIVISIONAL HIGHLIGHTS AND DEVELOPMENTS

DIVISIONAL PERFORMANCE

| | 1H12 | | |
|--|--------------|------------------|------------------|
| | GWP | Insurance Profit | Insurance Margin |
| | A\$m | A\$m | % |
| Australia Direct | 2,080 | 230 | 12.3 |
| Australia Intermediated | 1,330 | 79 | 6.7 |
| New Zealand | 538 | 33 | 7.3 |
| Total Australia and New Zealand | 3,948 | 342 | 9.8 |
| UK | 273 | (5) | (1.9) |
| Asia | 94 | (67) | (91.8) |
| Corporate & Other | 3 | 1 | n/a |
| Total Group | 4,318 | 271 | 7.1 |

The Group's largest business, **Australia Direct**, reported an 8.4% increase in GWP, driven by rate increases to recover higher reinsurance costs and natural peril allowances, augmented by volume gains. Strong growth of 16.7% was achieved in the home portfolio, along with largely volume-driven growth of 5.7% in motor. Underlying profitability has remained strong, with the division's lower reported insurance margin of 12.3% (1H11: 19.4%) reflecting an unfavourable net natural peril claim experience, a previously foreshadowed drag on earnings from higher reinsurance costs and an adverse credit spread impact.

The underlying performance of **Australia Intermediated** (CGU) has continued to improve. GWP growth of 13.0% was largely derived from acquisitions and rate increases. A reported insurance margin of 6.7% (1H11: 14.3%) has absorbed an adverse margin movement of over 1,000bps from higher natural perils, lower reserve releases and credit spreads.

The reported result from IAG's **New Zealand** operations showed a return to profit after the earthquake-influenced loss of 2H11. The result has borne a substantial increase in reinsurance costs, but top line growth of 14% reflects the hardening conditions and volume gains in the intermediated market. At an underlying level the business has continued to perform well. In December 2011, IAG announced it had agreed to purchase the AMI insurance business, subject to regulatory approval. If approved, this acquisition will strengthen IAG's market-leading position in New Zealand, particularly in direct personal motor lines.

A significantly reduced insurance loss of \$5m (1H11: \$121m insurance loss) has been recorded by the **UK** business, as remedial actions bear further fruit. The result also benefited from modest reserve releases, while reported GWP growth was flat. The business remains on track to report a close to breakeven result for the full year.

The result from **Asia** was heavily impacted by the Thai floods which cost the Group a net \$65m. On an underlying basis, Thailand performed soundly, while the Malaysian joint venture reported an insurance margin of over 19%. Good progress was made with the Indian joint venture and an investment in China is expected to complete in 2H12. The Group has also advised that its Malaysian joint venture, AmG, has submitted a proposal to acquire Kurnia Insurans (Malaysia) Berhad. If approved and completed, this transaction would make AmG the largest motor insurer in Malaysia.

Further improvement in both CGU and UK

1. EXECUTIVE SUMMARY

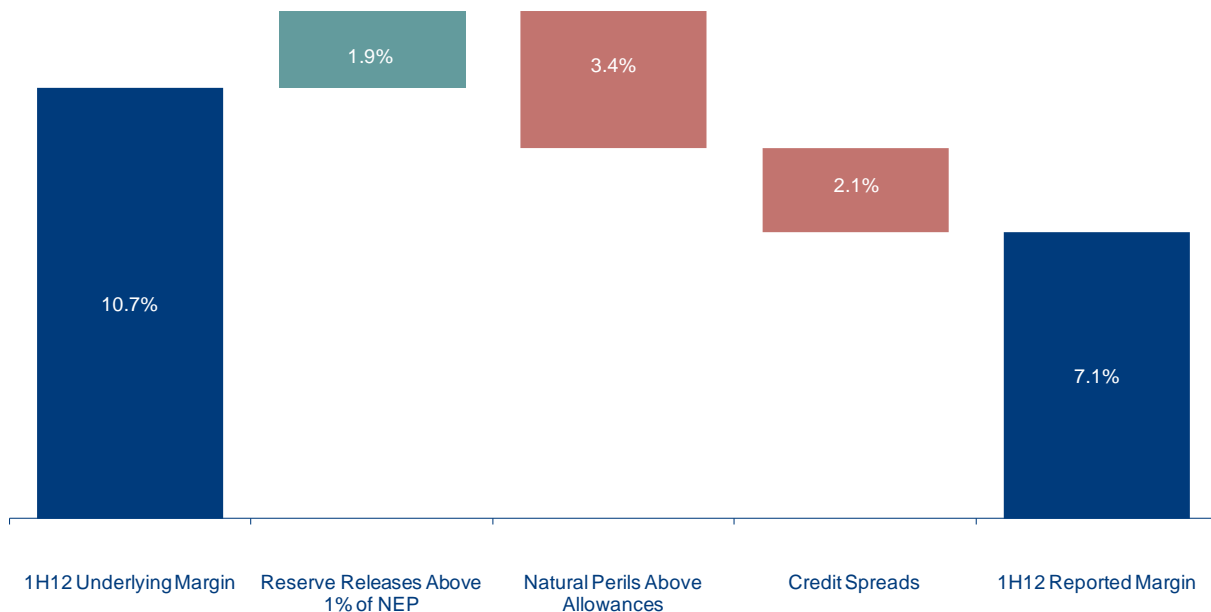
UNDERLYING INSURANCE RESULT

The Group has reported an improved underlying insurance margin of 10.7%, compared to 9.4% in 1H11. IAG defines its underlying margin as the reported insurance margin adjusted for:

- Net natural peril claim costs less related allowances for the period;
- Reserve releases in excess of 1% of NEP;
- Credit spread movements associated with volatile investment markets; and
- Any material isolated impacts of note.

Improved underlying insurance margin of 10.7%

GROUP 1H12 INSURANCE MARGIN – UNDERLYING VS. REPORTED



CAPITAL

The Group's capital position remains robust, at 1.69 times MCR as at 31 December 2011. This compares to the Group's long term benchmark of 1.45 to 1.50 times. The improvement since 30 June 2011 (1.58 times) primarily reflects the New Zealand subordinated bond issue completed in December.

On a pro forma basis, after allowing for the expected completion in 2H12 of the Group's strategic investment in China and acquisition of the AMI insurance business in New Zealand, the Group's MCR ratio at 31 December 2011 would stand at 1.57.

The Group's debt to total tangible capitalisation has increased to 38.3% at 31 December 2011, reflecting the recently completed New Zealand bond issue. This places the Group towards the upper end of its targeted range of 30-40%.

IAG's key wholly owned operating insurance subsidiaries continue to hold 'very strong' 'AA-' ratings from Standard & Poor's (S&P). At the Group level, IAG retains an 'A+' rating.

The Group's probability of adequacy for the outstanding claims liability remained at 90% at 31 December 2011.

The Group's capital position remains above benchmark

1. EXECUTIVE SUMMARY

OUTLOOK

The Group continues to expect to report an improved performance in FY12.

GWP growth guidance has been increased to 8-10% (previously 6-9%). Premium rate increases continue to be implemented across the Australian and New Zealand businesses, in response to industry-wide increased reinsurance costs following the severe natural peril activity experienced since FY10. Rate increases are focused mainly on home and property portfolios.

As previously advised, the Group expects total reinsurance costs will be between \$700m and \$720m in FY12, representing an increase of 13-16% over FY11. This includes rate increases on the catastrophe programme renewal at 1 January 2012, which were in line with expectations.

The Group anticipates reporting an insurance margin towards the lower end of its previously stated guidance of 10-12%. This primarily reflects the credit spread impact suffered during 1H12, which reduces the Group's margin by approximately 100bps on a full year basis.

The outlook comprises the following divisional expectations:

- Strong GWP growth from **Australia Direct** and an underlying margin similar to 1H12. This is despite some emerging pressures in NSW CTP, including lower investment returns and signs of increasing costs and frequency, neither of which can be reflected in pricing in the short term;
- A continuation of strong GWP growth from **CGU**, where a demonstrable improvement in full year underlying performance is expected;
- Maintenance of a strong underlying performance from **New Zealand**, with GWP growth reflecting the significant hardening of rates in that market;
- A close to breakeven result from the **UK** and relatively flat GWP, as previously predicted; and
- A return to a near-breakeven contribution from **Asia** in 2H12, with sound operating performances in Thailand and Malaysia offsetting regional development costs, and continued strong growth from the start-up operation in India.

Underlying assumptions behind the full year margin guidance are:

- Net losses from natural perils of \$630m (previously \$580m);
- Net prior period reserve releases slightly above 2% of NEP (previously up to 2%); and
- No material movement in foreign exchange rates or investment markets in 2H12.

In 2H12, CGU will commence the implementation of a revised operating model, as the business enters the next stage of its development and builds on the improved performance achieved to date. This is expected to deliver significant annual pre-tax benefits to the business, of \$25m in FY13 rising to \$65m by the end of FY15.

The changes will result in an anticipated pre-tax charge totalling approximately \$75m, of which around \$35m is expected to be recognised in 2H12, with the balance in FY13. These costs will be identified within the Group's net corporate expense line, below the reported insurance profit, and thus are excluded from the Group's insurance margin guidance.

IAG will hold a market briefing on 9 March 2012, dedicated to CGU's revised operating model.

All FY12 guidance statements exclude any impact from the potential acquisition of the AMI business in New Zealand, which remains subject to regulatory approval.

Improved FY12 performance expected: GWP growth of 8-10%, insurance margin towards lower end of 10-12% guidance range

2. STRATEGY

GROUP STRATEGY & PRIORITIES

| REALISING OUR POTENTIAL | | | |
|---|--|--|--|
| AMBITION | STRATEGY | TARGETS | PRIORITIES |
| To be the world's most respected group of general insurance companies | Deliver superior performance by actively managing our portfolio and driving operational performance and accountability | <p>Long term financial targets:</p> <ul style="list-style-type: none"> • ROE \geq 1.5xWACC • Top quartile TSR | <p>Accelerate growth in Australia and New Zealand</p> <p>Restore profitability in UK</p> <p>Boost Asian footprint – 10% of Group GWP by 2016</p> |

PROGRESS AGAINST STRATEGY

IAG made significant progress against its strategic priorities during 1H12.

Accelerating growth in Australia and New Zealand

GWP growth from the combined Australian and New Zealand businesses was 10.7% in 1H12. This was derived from a mixture of increased rates, volume gains and bolt-on acquisitions.

Australia Direct has demonstrated strong growth, with rate increases augmented by volume gains in the key home and motor portfolios. The volume improvement reflects a range of marketing and product initiatives, as well as ongoing investment in pricing capability to drive growth in preferred risk areas.

The improvement in CGU's underlying performance has continued, placing it on track to record a targeted double digit margin in FY13. The acquisition of HBF's general insurance business (over \$100m of GWP in FY12) has contributed to CGU's strong top line growth.

The New Zealand business has registered improved new business volumes, particularly in intermediated commercial lines. The agreed purchase of the AMI insurance business, which is subject to regulatory approval, will increase the New Zealand business' annual GWP by approximately NZ\$360m, reinforcing its market-leading position, notably in direct personal motor lines.

Restoring profitability in the UK

The programme of remedial actions in the UK has resulted in further significant improvement in reported performance, placing the business on track to meet the guidance provided at the outset of FY12.

The UK is expected to report a full year result close to breakeven, against a backdrop of flat reported GWP as rate increases are offset by volume declines.

Significant progress against strategic priorities in 1H12

2. STRATEGY

Boosting the Group's Asian footprint

The Group has made further progress in expanding its Asian footprint, and is on track to reach its goal of Asia representing 10% of GWP by 2016, on a proportional basis.

By the end of FY12, the Group expects to have a presence in the insurance markets of the two fastest growing economies in Asia, which are anticipated to experience strong growth over an extended timeframe:

- In India, IAG is partnered with State Bank of India, the country's largest bank. The 26%-owned joint venture vehicle, SBI General, is exhibiting rapid growth, and related start-up losses are both in line with expectations and relatively modest in scale; and
- In China, IAG expects to complete the acquisition of a 20% interest in Bohai Property Insurance Company Ltd (Bohai) in 2H12. Based in Tianjin, Bohai offers a compelling strategic and cultural fit, with a predominantly motor focus and an established annual GWP base in excess of \$200m.

In addition, the Group has announced a proposal to acquire Kurnia Insurans (Malaysia) Berhad, via IAG's highly profitable Malaysian joint venture, AmG. While subject to regulatory and other approvals, this transaction would result in the merged AmG and Kurnia business attaining the leading position in the Malaysian motor insurance market, in line with AmG's stated strategy.

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3. GROUP RESULTS

FINANCIAL PERFORMANCE

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|--|--------------|--------------|--------------|
| Gross written premium | 3,936 | 4,114 | 4,318 |
| Gross earned premium | 3,938 | 3,920 | 4,195 |
| Reinsurance expense | (228) | (392) | (356) |
| Net earned premium | 3,710 | 3,528 | 3,839 |
| Net claims expense | (2,359) | (2,730) | (3,007) |
| Commission expense | (336) | (297) | (329) |
| Underwriting expense | (694) | (651) | (707) |
| Underwriting profit/(loss) | 321 | (150) | (204) |
| Investment income on technical reserves | 149 | 340 | 475 |
| Insurance profit | 470 | 190 | 271 |
| Net corporate expense | - | (1) | - |
| Interest | (44) | (42) | (44) |
| Profit/(loss) from fee based business | 17 | (11) | 8 |
| Share of profit/(loss) from associates | - | (2) | (1) |
| Investment income on shareholders' funds | 147 | 66 | (30) |
| Profit before income tax and amortisation | 590 | 200 | 204 |
| Income tax expense | (223) | (53) | (26) |
| Profit after income tax (before amortisation) | 367 | 147 | 178 |
| Non-controlling interests | (44) | (44) | (23) |
| Profit attributable to IAG shareholders (before amortisation) | 323 | 103 | 155 |
| Amortisation and impairment | (162) | (14) | (11) |
| Profit attributable to IAG shareholders | 161 | 89 | 144 |
| Insurance Ratios | | | |
| Loss ratio | 63.6% | 77.4% | 78.3% |
| Immunised loss ratio | 66.4% | 75.5% | 70.0% |
| Expense ratio | 27.8% | 26.9% | 27.0% |
| Commission ratio | 9.1% | 8.4% | 8.6% |
| Administration ratio | 18.7% | 18.5% | 18.4% |
| Combined ratio | 91.4% | 104.3% | 105.3% |
| Immunised combined ratio | 94.2% | 102.4% | 97.0% |
| Insurance margin | 12.7% | 5.4% | 7.1% |
| Key Financial Metrics | | | |
| Reported ROE (average equity) (% pa) | 7.2% | 4.0% | 6.5% |
| Cash ROE (average equity) (% pa) | 16.0% | 6.1% | 7.0% |
| Basic EPS (cents) | 7.79 | 4.29 | 6.95 |
| Cash EPS (cents) | 17.35 | 6.62 | 7.48 |
| DPS (cents) | 9.00 | 7.00 | 5.00 |
| Probability of adequacy | 90% | 90% | 90% |
| MCR multiple | 1.81 | 1.58 | 1.69 |

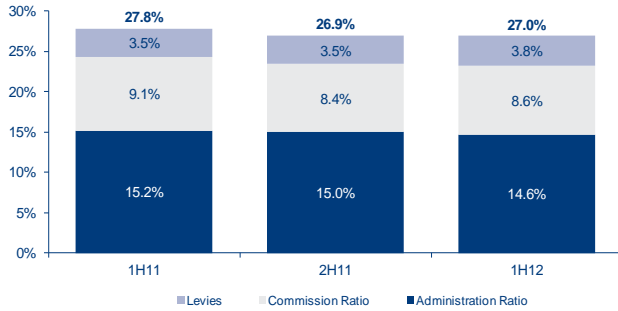
KEY FOREIGN EXCHANGE RATES APPLIED

| | (spot rate) | | | (average rate) | |
|--------------------|-------------|--------|--------|----------------|--------|
| | 1H11 | 2H11 | 1H12 | 1H11 | 1H12 |
| New Zealand dollar | 0.7598 | 0.7720 | 0.7611 | 0.7803 | 0.7805 |
| British pound | 1.5197 | 1.4996 | 1.5202 | 1.6556 | 1.5427 |
| Thai baht | 0.0328 | 0.0303 | 0.0310 | 0.0343 | 0.0317 |

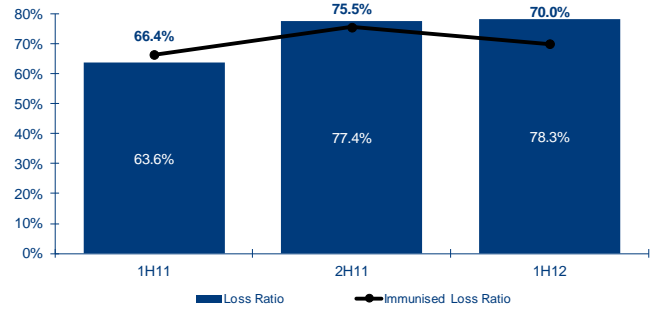
3. GROUP RESULTS

INSURANCE RATIOS

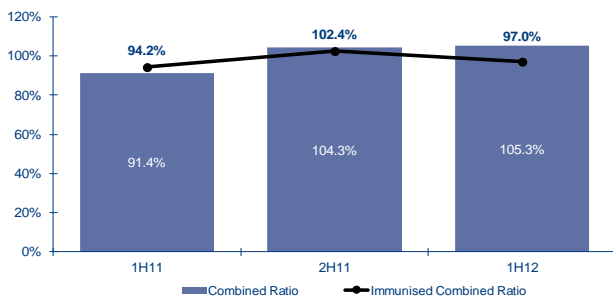
EXPENSE RATIO



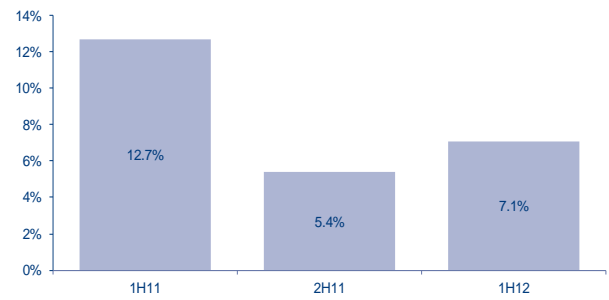
LOSS RATIO



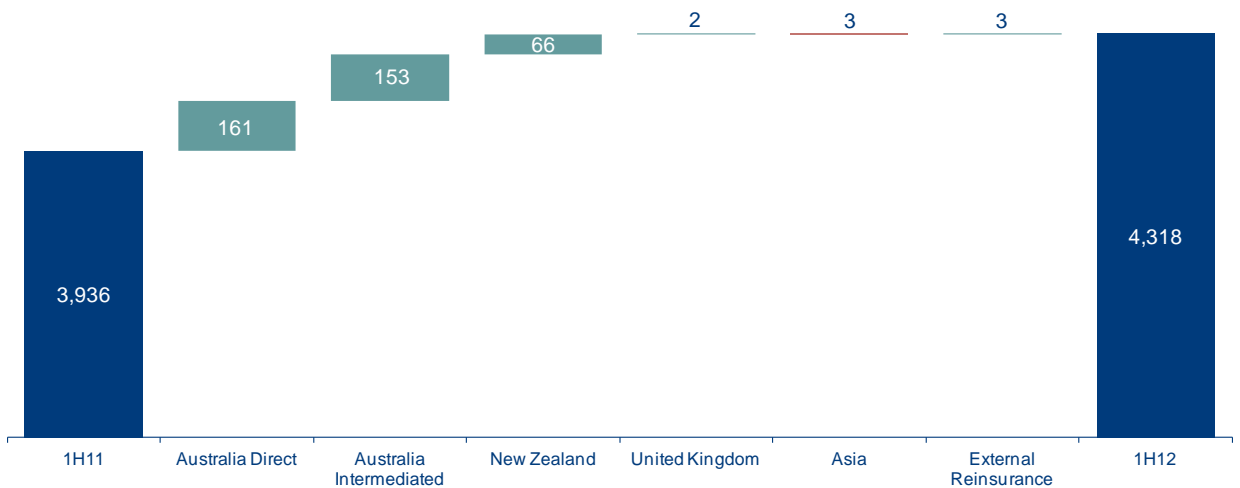
COMBINED RATIO



INSURANCE MARGIN



GWP – 1H12 VS. 1H11 (A\$M)



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3. GROUP RESULTS

PREMIUMS

GWP for the Group was \$4,318m, up 9.7% from \$3,936m in 1H11, with growth largely driven by rate increases in Australia and New Zealand, implemented to recover higher reinsurance costs and natural peril allowances. This was supplemented by volume gains in most markets, as well as acquisition-derived growth, notably in CGU.

Comparing 1H12 GWP with 1H11:

- **Australia Direct** grew by 8.4% to \$2,080m, with significant rate increases, largely in home, augmented by volume growth, particularly in motor;
- **Australia Intermediated** (CGU) rose by 13.0% to \$1,330m, with growth derived largely from rate increases and recent acquisitions (notably the HBF business);
- **New Zealand** reported an increase in GWP of over 14%, to \$538m, reflecting hardening market conditions post the earthquakes in FY11;
- The **UK** business reported flat GWP, with significant rate increases offset by lower volumes, in line with expectations; and
- In **Asia**, consolidated GWP (in respect of Thailand) rose by over 5% in local currency terms. IAG now participates in a regional GWP pool in excess of \$435m.

GWP grew by 9.7% during 1H12

INSURANCE MARGIN

The Group's insurance margin was 7.1% (1H11: 12.7%), after a greater than 500bps reduction from the combined effect of net natural peril costs in excess of related allowances and wider credit spreads.

The reported insurance margin also incorporates a \$128m increase in reinsurance expense (56% higher than 1H11), which has restricted NEP growth to 3.5% over the comparable half.

Compared to 1H11 (\$470m), the period's insurance profit of \$271m contains the following notable elements:

- Net natural peril claim costs of \$396m, which exceeded allowances by \$130m. Nearly half of the net cost related to the Victorian storms in late December 2011. In contrast, 1H11's net natural peril cost was \$54m below allowances for the period, aided by reinsurance recoveries;
- Reserve releases of \$112m (1H11: \$103m), or 2.9% of NEP; and
- An adverse credit spread impact of \$80m.

Insurance margin of 7.1% adversely impacted by significant natural peril and credit spread effects

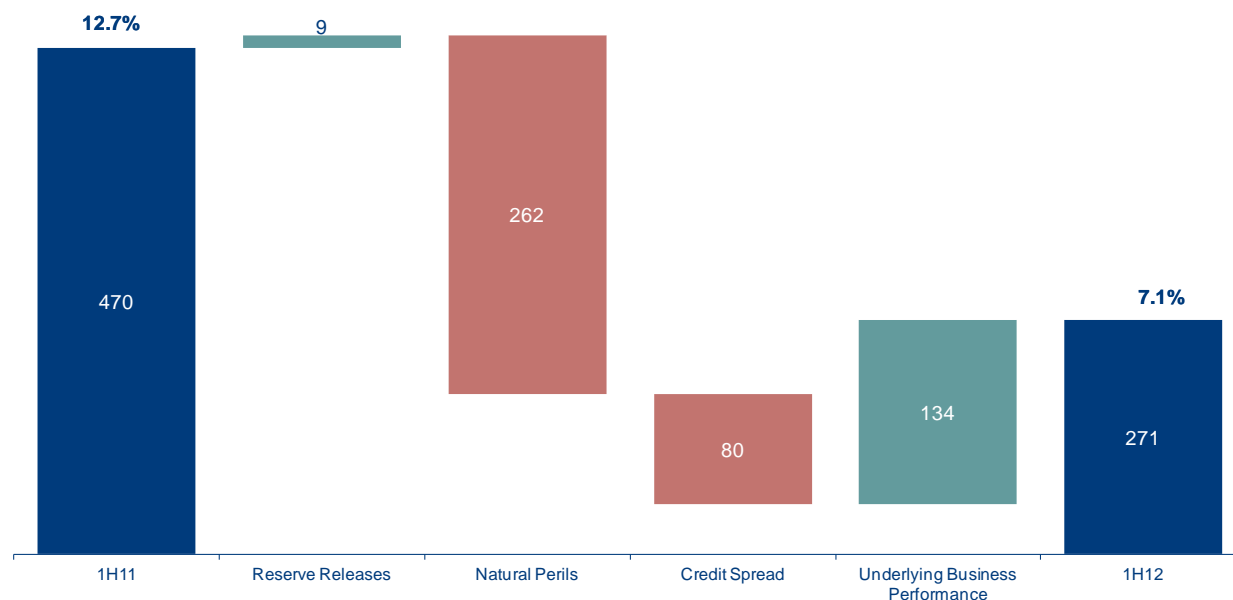
INSURANCE PROFIT / MARGIN IMPACTS

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|--------------------------|--------------|--------------|--------------|
| Reserve releases | 103 | 225 | 112 |
| Natural perils | (134) | (476) | (396) |
| Natural perils allowance | 188 | 247 | 266 |
| Credit spreads | * | * | (80) |
| Reserve releases | 2.8% | 6.4% | 2.9% |
| Natural perils | (3.6%) | (13.5%) | (10.3%) |
| Natural perils allowance | 5.1% | 7.0% | 6.9% |
| Credit spreads | * | * | (2.1%) |

* Negligible impact during the period.

3. GROUP RESULTS

INSURANCE PROFIT / MARGIN – 1H12 VS. 1H11



On a divisional basis:

- **Australia Direct** has reported a lower insurance profit owing to higher net natural peril costs and wider credit spreads. As previously indicated, there has also been a modest negative timing impact associated with the implementation of rate increases to recover higher reinsurance costs;
- The improvement in underlying performance from **CGU** has continued. CGU's reported insurance profit, however, was lower than 1H11, owing to natural peril, reserve release and credit spread factors;
- The **New Zealand** insurance profit is significantly lower than 1H11, but represents a substantial rebound from the earthquake-induced loss of 2H11. Underlying performance has remained strong, throughout;
- The **UK** has made considerable progress during the period, as remediation actions gained further traction and placed the business on track to achieve a near-breakeven full year outcome; and
- The insurance loss of \$67m from **Asia** reflects the extreme flood event in Thailand, while the underlying performance of the business was steady.

REINSURANCE EXPENSE

The total reinsurance expense includes the cost of all catastrophe, casualty and facultative covers across the Group.

The 1H12 expense of \$356m represents a significant increase on 1H11 (\$228m), and includes approximately \$110m of reinstatement costs. These costs are predominantly those incurred in respect of the main catastrophe programme after the second Christchurch earthquake in February 2011 and amortised over the balance of calendar 2011.

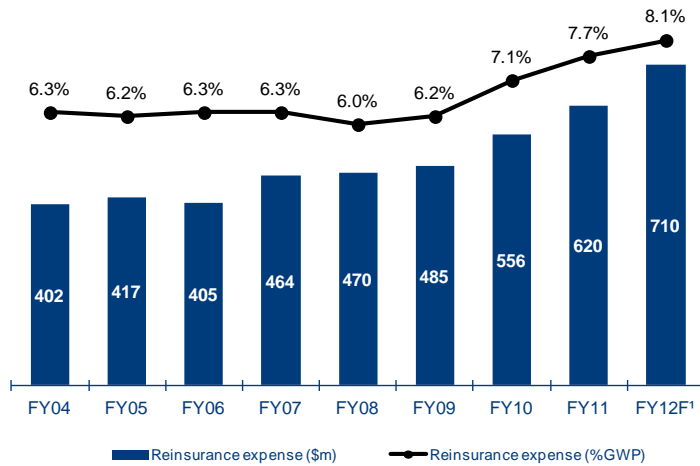
Following the renewal of the Group's catastrophe cover, effective from 1 January 2012, IAG has indicated an expected reinsurance expense of between \$700m and \$720m for FY12.

Increased reinsurance expense includes reinstatement costs

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3. GROUP RESULTS

REINSURANCE EXPENSE



¹FY12F based on mid-point of GWP growth guidance of 8-10% and reinsurance expense guidance of \$700-720m.

CLAIMS

The reported loss ratio of 78.3% is higher than 1H11 (63.6%), and reflects the combined effect of:

- A significant increase in net natural peril claim costs; and
- A substantial movement in the risk free discount rate adjustment, in response to lower interest rates.

Prior period reserve releases were slightly higher than those reported in 1H11.

Other influences on the total claims expense were:

- Business volume growth, including acquisitions, across the Group;
- Moderate post-event underlying claim inflation in Australia and New Zealand;
- Further benefit from claim initiatives, notably in CGU; and
- Continued, but slightly reduced, bodily injury claim inflation in the UK.

After allowing for the risk free discount rate adjustment, the immunised loss ratio of 70.0% is higher than 1H11 (66.4%). This highlights the higher net natural peril claim cost impact in 1H12.

RESERVE RELEASES

The 1H12 net claims expense includes \$112m of prior period reserve releases, equivalent to 2.9% of NEP. This compares to \$103m reported in 1H11.

1H12 reserve releases primarily reflect favourable experience in Australian long tail classes, such as professional risks, workers' compensation and CTP. Consistent with prior periods, reserve releases were predominantly sourced from central estimates.

Increased 1H12 loss ratio owing to higher net natural peril costs and a substantial movement in the discount rate adjustment

Reserve releases derived from Australian long tail classes

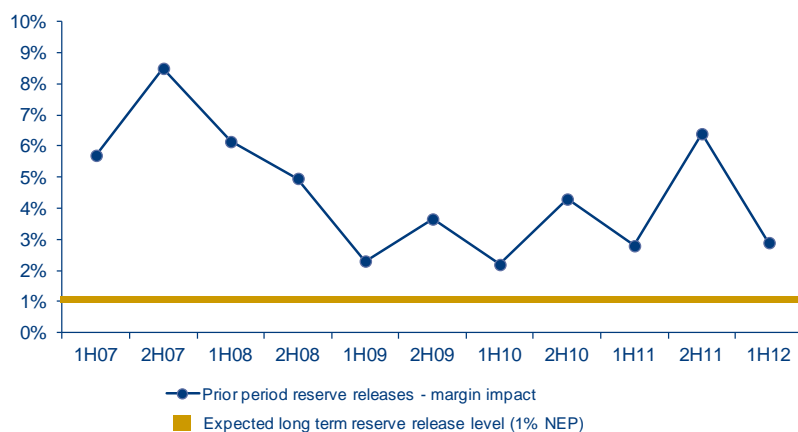
3. GROUP RESULTS

RESERVE RELEASES

| | 1H11 | 2H11 | 1H12 |
|----------------------------|------|------|------|
| | A\$m | A\$m | A\$m |
| Reserve releases | 103 | 225 | 112 |
| Impact on insurance margin | 2.8% | 6.4% | 2.9% |

The Group believes that reserve releases of around 1% of NEP are a recurring feature of its reported operating results in benign inflationary periods. This reflects the Group's approach to reserving, with long term inflation assumptions tending to be in excess of actual experience in most years. The Group's current expectation for FY12 is that reserve releases will be slightly above 2% of NEP.

RESERVE RELEASES – IMPACT ON INSURANCE MARGIN

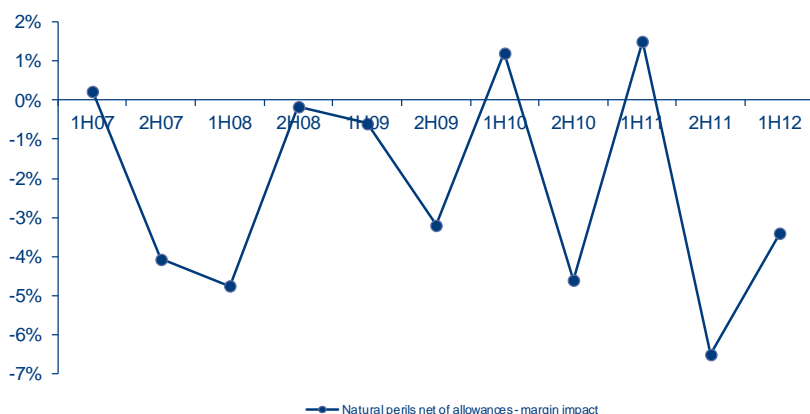


NATURAL PERILS

The 1H12 net claims expense included \$396m (1H11: \$134m) of losses from natural perils (net of reinsurance), compared to allowances of \$266m. The net effect of natural perils (after allowances) was a negative impact on reported insurance margin of 3.4% (1H11: +1.5%).

Net natural peril claims \$130m in excess of allowances

NATURAL PERILS – IMPACT ON INSURANCE MARGIN



3. GROUP RESULTS

NATURAL PERIL CLAIM COSTS VS. ALLOWANCES

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|-----------------------------------|--------------|---------------|---------------|
| Natural peril claim costs | (134) | (476) | (396) |
| Natural peril allowances | 188 | 247 | 266 |
| Impact on insurance profit | 54 | (229) | (130) |
| Impact on insurance margin | 1.5% | (6.5%) | (3.4%) |

1H12 contained two natural peril events of note: the floods in Thailand and the storm activity in Victoria around the Christmas period. Related net claim costs were \$65m and \$190m respectively, with the cost of the Thai floods struck after exhausting the balance of protection available under the Group's 2011 aggregate cover.

Further seismic activity occurred in the Canterbury region of New Zealand in late December 2011, but related claim costs were not significant. Attritional natural peril events (less than \$5m in size) amounted to \$72m, compared to \$71m in 1H11.

While 1H11 included events such as the first earthquake in Christchurch (September 2010) and a number of severe storms in both Australia and New Zealand, the Group did benefit from significant reinsurance protection during that period.

1H12 NATURAL PERIL COSTS BY EVENT

| | A\$m |
|---|------------|
| Severe frontal thunderstorms - Australia (July 2011) | 10 |
| Extreme floods - Thailand (August-December 2011) | 65 |
| East coast low - NSW (September 2011) | 5 |
| Frontal squalls and thunderstorms - Australia (November 2011) | 16 |
| Squalls and thunderstorms - Australia (November 2011) | 6 |
| Margaret River fires - Western Australia (November-December 2011) | 7 |
| Rain squalls and thunderstorms - Australia (November-December 2011) | 8 |
| Thunderstorms - Australia (December 2011) | 9 |
| Canterbury aftershocks - New Zealand (December 2011) | 8 |
| Severe storms - Victoria (December 2011) | 190 |
| Other events | 72 |
| Total | 396 |

The Group's natural peril allowance for FY12 was \$580m, a 33% increase over the FY11 allowance. The Group has revised its estimate for net natural peril costs in FY12 to \$630m, as a result of experience in 1H12. This assumes a net cost of \$234m in 2H12.

EXPENSES

The Group's reported expense ratio improved to 27.0% (1H11: 27.8%), reflecting the combined effect of increased net earned premium and relatively flat overall expenditure.

Excluding government levies, the Group's administration ratio has improved from 15.2% in 1H11 to 14.6% in 1H12.

FY12 guidance assumes increased natural peril assumption of \$630m

Continued trend of improved operating efficiency

3. GROUP RESULTS

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for 1H12 was \$475m, compared to \$149m in 1H11. This outcome includes unrealised capital gains associated with the period end discount rate adjustment, of \$320m, compared with an equivalent negative adjustment of \$104m in 1H11.

Credit spread volatility returned as a significant feature during the half, following the negligible impact incurred over the course of FY11. A widening of credit spreads served to reduce investment income on technical reserves by \$80m in 1H12.

Allowing for credit spreads and the movement in the discount rate adjustment prompted by lower interest rates, the Group continued to generate over 100bps of return above the risk free (3-year government bond) rate, across the entire technical reserves portfolio. The average duration of the portfolio continues to be aligned with the Group's claims liability, at approximately three years.

PROFIT FROM FEE BASED BUSINESS

Fee based business generated a profit of \$8m in 1H12, compared to \$17m in 1H11. The lower outcome reflects:

- A \$6m reduction in prior period income received by CGU; and
- A weaker performance from the UK fee based operations owing to challenging market conditions.

SHARE OF ASSOCIATES

The Group's Asian interests represent a large portion of the share of earnings from associates, and comprise:

- The 49% interest in the Malaysian joint venture, AmG Insurance, which produced a strong insurance margin in excess of 19%; and
- A 26% interest in SBI General in India, which is still in its start-up phase and produced modest losses in line with expectations.

The combined contribution from these two businesses was a loss of \$1m, and includes \$6m of regional support and development costs.

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a loss of \$30m, compared to a profit of \$147m in 1H11. The poor outcome largely reflects the direction of equity markets, with the broader Australian index shedding 12% over the six months to 31 December 2011.

The Group continues to target a 50% weighting to growth assets (equities and alternatives) within shareholders' funds. At 31 December 2011 this weighting stood at approximately 35%, compared to 41% at 30 June 2011. The reduced weighting reflects:

- The underperformance of equities during the period;
- The decision to exit the Group's exposure to international equities close to the end of 1H12, and the placement of a portion of related funds in fixed interest and cash; and
- Allowance for future anticipated outlays, including the Bohai investment in China and the proposed acquisition of AMI in New Zealand, via an increased allocation to short term fixed interest and cash.

Significant adverse credit spread impact in 1H12

Lower fee based result driven by reduced prior period income in CGU

Share of associates largely derived from Asian interests

Loss on shareholders' funds reflects lower equity markets

3. GROUP RESULTS

TAX EXPENSE

The Group reported a tax expense of \$26m in 1H12, compared to \$223m in 1H11, representing an effective tax rate (pre-amortisation) of 12.7%. This reconciles to the prevailing Australian corporate rate of 30% after allowing for increased reinsurance recoveries by captive vehicles domiciled in lower tax jurisdictions. A strengthening of gross claim reserves, in respect of large peril events in FY11, occurred in the period.

Non-recognition for accounting purposes of any future tax benefit in respect of the UK operating losses was minimal in 1H12. As at 31 December 2011, unrecognised tax losses in respect of the UK stood at \$225m (£148m).

NON-CONTROLLING INTERESTS

The \$23m non-controlling interests in the Group's profit compares to \$44m in 1H11. The decrease reflects lower earnings from the Group's main joint venture, the 70%-owned Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines form part of Australia Direct. The result of this business was particularly affected by the major Victorian storms event in late December 2011.

AMORTISATION

The 1H12 amortisation charge of \$11m compares to \$162m reported in 1H11. The significantly lower expense is attributable to the absence of any write-down of goodwill or intangibles associated with the UK business.

EARNINGS PER SHARE

Basic earnings per share (EPS) in 1H12 was 6.95 cents per share (cps), compared to 7.79cps in 1H11, a decrease of approximately 11%. On a diluted basis, EPS was 6.91cps (1H11: 7.75cps). Basic EPS was calculated on weighted average capital on issue in 1H12 of 2,068m shares (excluding treasury shares).

ORDINARY ISSUED CAPITAL

| | Shares (m) |
|--|------------|
| Balance at the beginning of the financial year | 2,079 |
| Balance at the end of the half year | 2,079 |
| Average weighted shares on issue ¹ | 2,068 |

¹Basic EPS calculated after exclusion of treasury shares held in trust.

Cash EPS was 7.48cps, compared to 17.35cps in 1H11, a decrease of 57%. Cash earnings are used for the purposes of targeted ROE and dividend payout policy, and are defined as:

- Net profit after tax attributable to IAG shareholders;
- Plus amortisation and impairment of acquired identifiable intangibles; and
- Excluding any unusual items.

Cash EPS in 1H11 included the add-back of the \$150m write-down of goodwill and intangibles associated with the UK business in that half.

Lower effective tax rate reflects reinsurance recoveries in lower tax jurisdictions

Lower non-controlling interests owing to reduced IMA result

Cash EPS of 7.48 cents

3. GROUP RESULTS

CASH EARNINGS

| | 1H12 A\$m |
|--|--------------|
| Net profit after tax | 144 |
| Intangible amortisation and impairment | 11 |
| Cash earnings | 155 |
| Dividend payable | 104 |
| Cash payout ratio | 67.1% |

DIVIDENDS

The Board has determined to pay a fully franked interim dividend of 5.0 cents per ordinary share (1H11: 9.0 cents), which equates to a payout ratio of 67.1% of cash earnings for the period. The interim dividend is payable on 4 April 2012 to shareholders registered as at 5pm on 7 March 2012.

It remains IAG's policy to pay dividends equivalent to approximately 50–70% of reported cash earnings in any given financial year.

The dividend reinvestment plan (DRP) will operate for the interim dividend. The issue price per share for the 1H12 dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. Information about IAG's DRP is available at: <http://www.iag.com.au/shareholder/reinvestment/index.shtml>.

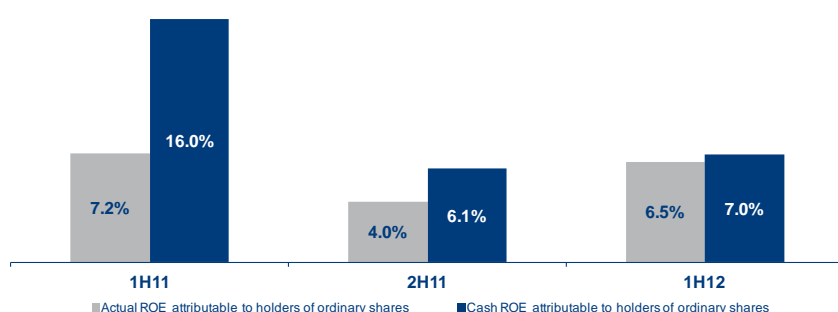
The listed entity had distributable retained earnings of \$732m as at 31 December 2011. At this date, and after allowance for payment of the interim dividend, the Group's franking balance was \$389m, giving the capacity to fully frank a further \$907m of distributions.

RETURN ON EQUITY

The Group targets a cash ROE of at least 1.5 times WACC through the cycle. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation of intangibles and unusual items. Based on the Group's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%.

In 1H12, the Group reported a cash ROE of 7.0%, compared to 16.0% in 1H11.

RETURN ON EQUITY (ANNUALISED)

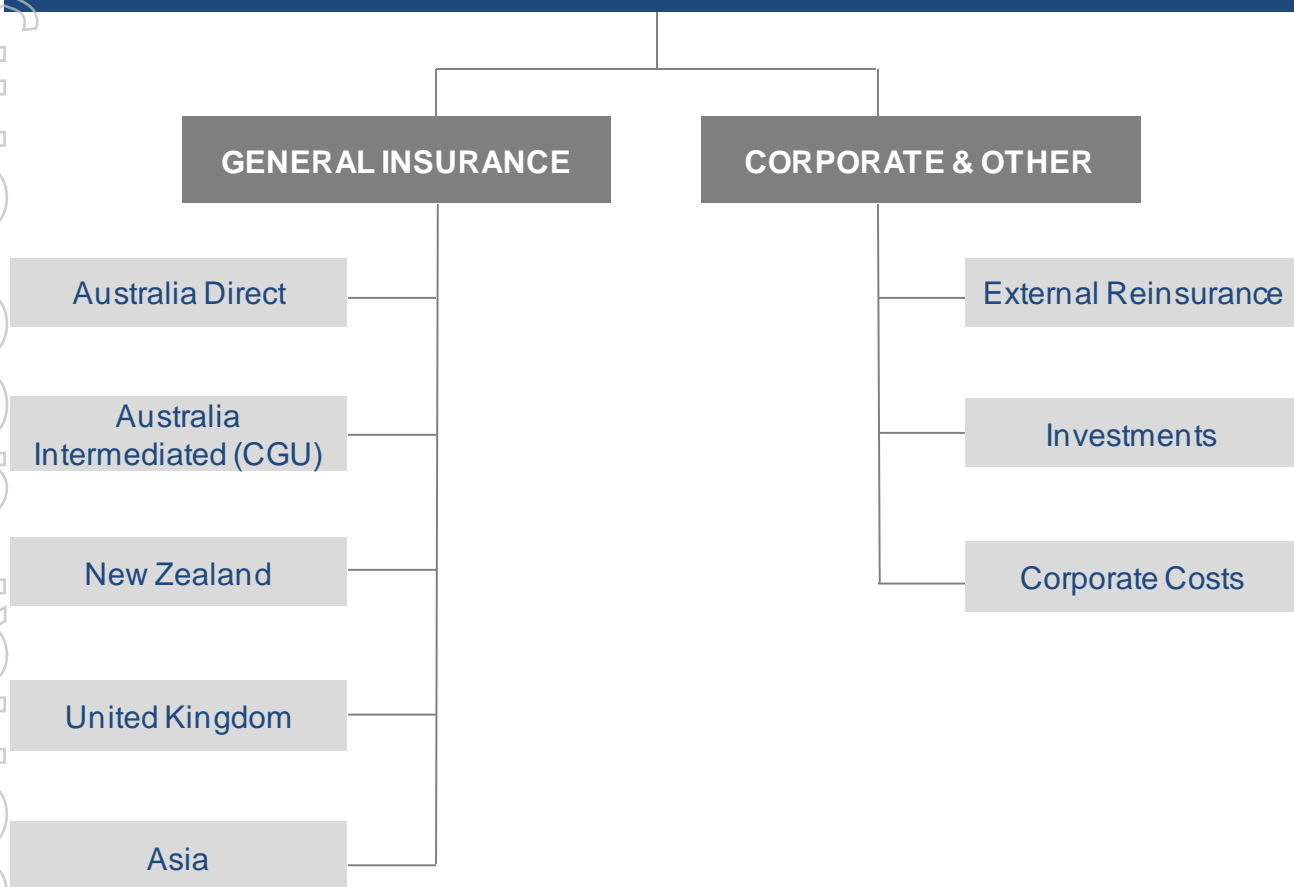


Cash payout ratio of 67.1% in 1H12

Cash ROE of 7.0%

4. DIVISIONAL OVERVIEW

INSURANCE AUSTRALIA GROUP



1H12 DIVISIONAL FINANCIAL PERFORMANCE

| | Australia Direct A\$m | Australia Intermediated A\$m | New Zealand A\$m | UK A\$m | Asia A\$m | Corporate & Other A\$m | Total A\$m |
|---|-----------------------------|------------------------------------|---------------------|------------|--------------|------------------------------|---------------|
| Gross written premium | 2,080 | 1,330 | 538 | 273 | 94 | 3 | 4,318 |
| Gross earned premium | 1,996 | 1,307 | 517 | 279 | 92 | 4 | 4,195 |
| Reinsurance expense | (130) | (121) | (63) | (21) | (19) | (2) | (356) |
| Net earned premium | 1,866 | 1,186 | 454 | 258 | 73 | 2 | 3,839 |
| Net claims expense | (1,553) | (854) | (298) | (188) | (114) | - | (3,007) |
| Commission expense | (40) | (188) | (56) | (27) | (17) | (1) | (329) |
| Underwriting expense | (316) | (247) | (81) | (50) | (13) | - | (707) |
| Underwriting profit/(loss) | (43) | (103) | 19 | (7) | (71) | 1 | (204) |
| Investment income on tech reserves | 273 | 182 | 14 | 2 | 4 | - | 475 |
| Insurance profit/(loss) | 230 | 79 | 33 | (5) | (67) | 1 | 271 |
| Profit/(loss) from fee based business/ share of associates | - | 9 | 1 | (2) | (1) | - | 7 |
| Total divisional results | 230 | 88 | 34 | (7) | (68) | 1 | 278 |
| Insurance Ratios | | | | | | | |
| Loss ratio | 83.2% | 72.0% | 65.6% | 72.9% | 156.2% | | 78.3% |
| Expense ratio | 19.0% | 36.7% | 30.1% | 29.9% | 41.1% | | 27.0% |
| Commission ratio | 2.1% | 15.9% | 12.3% | 10.5% | 23.3% | | 8.6% |
| Administration ratio | 16.9% | 20.8% | 17.8% | 19.4% | 17.8% | | 18.4% |
| Combined ratio | 102.2% | 108.7% | 95.7% | 102.8% | 197.3% | | 105.3% |
| Insurance margin | 12.3% | 6.7% | 7.3% | (1.9%) | (91.8%) | | 7.1% |

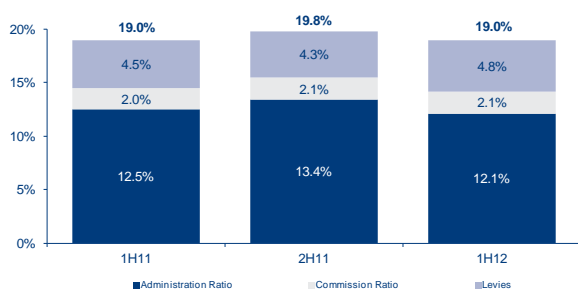
5. AUSTRALIA DIRECT

FINANCIAL PERFORMANCE

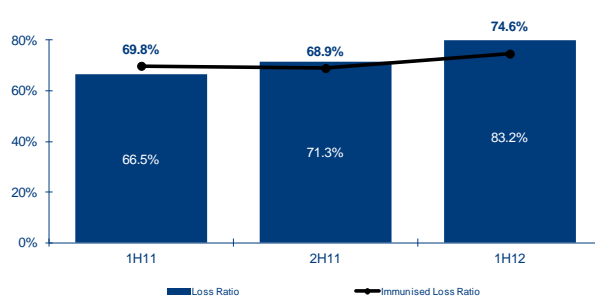
| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---|--------------|--------------|--------------|
| Gross written premium | 1,919 | 1,972 | 2,080 |
| Gross earned premium | 1,877 | 1,902 | 1,996 |
| Reinsurance expense | (71) | (114) | (130) |
| Net earned premium | 1,806 | 1,788 | 1,866 |
| Net claims expense | (1,201) | (1,274) | (1,553) |
| Commission expense | (37) | (38) | (40) |
| Underwriting expense | (307) | (316) | (316) |
| Underwriting profit | 261 | 160 | (43) |
| Investment income on technical reserves | 89 | 192 | 273 |
| Insurance profit | 350 | 352 | 230 |
| Insurance Ratios | | | |
| Loss ratio | 66.5% | 71.3% | 83.2% |
| Immunised loss ratio | 69.8% | 68.9% | 74.6% |
| Expense ratio | 19.0% | 19.8% | 19.0% |
| Commission ratio | 2.0% | 2.1% | 2.1% |
| Administration ratio | 17.0% | 17.7% | 16.9% |
| Combined ratio | 85.5% | 91.1% | 102.2% |
| Immunised combined ratio | 88.8% | 88.7% | 93.6% |
| Insurance margin | 19.4% | 19.7% | 12.3% |

INSURANCE RATIOS

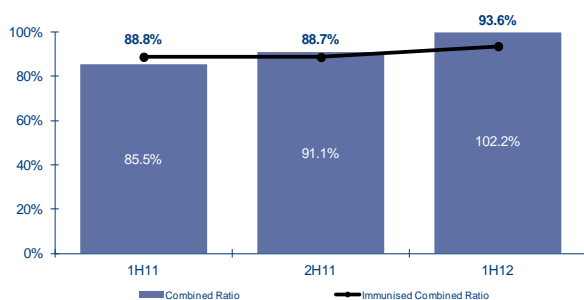
EXPENSE RATIO



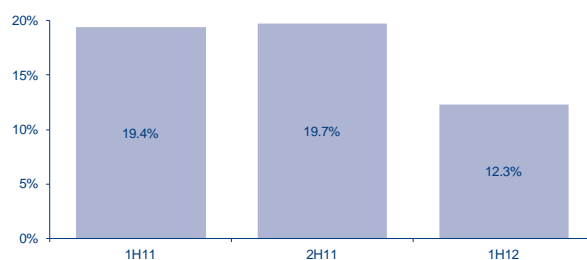
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



5. AUSTRALIA DIRECT

EXECUTIVE SUMMARY

Australia Direct is IAG's largest business, contributing over 48% of the Group's GWP in 1H12, and continues to perform well. The business concentrates on direct personal lines insurance products, including compulsory third party (CTP), and operates with single pricing and claim platforms which cover all its state-based brands.

GWP growth of 8.4% was recorded, underpinned by rate increases to recover increased reinsurance costs and higher natural peril allowances, while augmented by some volume growth. GWP has increased in all states and most product classes.

Australia Direct produced a reduced insurance profit of \$230m (1H11: \$350m) owing to significantly higher reinsurance costs, an unfavourable net natural peril claims experience and an adverse credit spread impact. This performance equates to a reported insurance margin of 12.3% (1H11: 19.4%).

Excluding peril and credit spread impacts, the lower margin is consistent with the guidance previously provided, which highlighted that significantly higher reinsurance costs would be recovered over the longer term but were likely to place some pressure on margin in FY12.

In 2H12, Australia Direct expects a continuation of strong GWP growth on the back of further rate increases and volume growth. A similar underlying margin to that of 1H12 is expected. This is despite some emerging pressures in NSW CTP, including the impact of lower investment returns and some signs of increasing claim costs and frequency, neither of which can be reflected in pricing in the short term.

PREMIUMS

Australia Direct generated accelerated premium growth during 1H12, as further rate increases were implemented to recover higher reinsurance and natural peril costs, particularly in the home book. Around two-thirds of reported GWP growth in the half was rate-related.

Overall GWP for 1H12 amounted to \$2,080m, an 8.4% increase over 1H11 (\$1,919m), with growth realised in all product classes and states, other than:

- Queensland CTP (\$28m GWP in 1H12), where Australia Direct continues to restrict marketing efforts following the 2010 scheme changes; and
- Retail Business Insurance (\$90m GWP in 1H12), where the focus has been on improving underwriting quality and exiting poor performing segments.

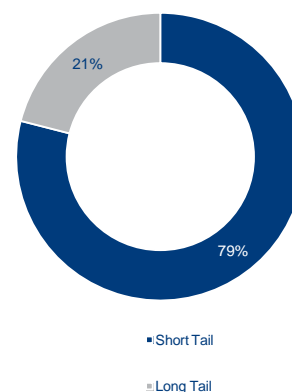
Rate-driven growth was augmented by continued volume improvement, stemming from a range of marketing and product initiatives. These included the continuation of the 'Experience the Difference' major brand campaign, which commenced in FY11. GWP performance also reflected ongoing investment in pricing capability to target growth in preferred risk areas.

Australia Direct's online sales channel (including Buzz Insurance) registered further strong growth, with volumes increasing by over 30% against 1H11.

Total short tail GWP growth in 1H12 was 9.8%, compared to 1H11, representing a significant increase over the growth rates recorded in the preceding two halves. This reflects the cumulative impact of rate increases, implemented to recover increased reinsurance costs and natural peril allowances, largely directed at the home portfolio, as well as volume gains.

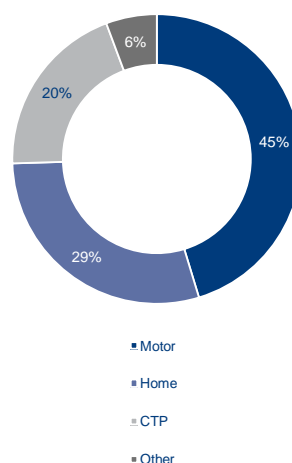
Strong underlying performance; reported outcome influenced by adverse peril and credit spread effects

1H12 GWP BY TAIL



GWP growth of 8.4%, driven by rate and volume

1H12 GWP BY CLASS



5. AUSTRALIA DIRECT

GWP GROWTH BY CLASS

| | 1H11 | 2H11 | 1H12 |
|---------------------------------|-------------|-------------|-------------|
| Motor | 3.6% | 0.7% | 5.7% |
| Home | 11.1% | 8.7% | 16.7% |
| Total Short Tail | 6.7% | 3.3% | 9.8% |
| Long Tail | 13.4% | 12.9% | 5.2% |
| Retail Business Insurance (RBI) | 4.4% | 3.7% | (0.6%) |
| Total GWP | 7.9% | 5.2% | 8.4% |

Home GWP rose by 16.7% compared to 1H11, with around 80% of this advance derived from rate increases and the balance from volume. Product and marketing initiatives, such as the launch of the Home Plus product in FY11, have assisted a continuation of sound volume growth.

The provision of premium options to customers on renewal has helped to address affordability issues associated with higher prices, resulting in home due renewal levels consistent with those of FY11, at 93%.

In contrast to home, motor GWP growth of 5.7% was predominantly derived from increased volume, with low single digit rate increases in the period. As with home, due renewal levels for motor in 1H12 were similar to those of FY11, at 90%.

Overall CTP GWP growth of 5.2% was recorded in 1H12, in the face of lower rate increases and reduced volume growth, compared to 1H11. Rate increases were implemented in the ACT (8.0% in August 2011) and NSW (2.7% in September 2011) markets and were the main driver of increased GWP.

Total CTP policies in force grew by 2.9% compared to 1H11. Growth in NSW and ACT continued to be offset by weaker activity in Queensland, where Australia Direct has reduced marketing activity following the scheme changes implemented in late 2010. Overall due renewal rates were consistent with FY11, at 79%.

Australia Direct's share of NSW CTP registrations (on a 12-month rolling average basis) remained around 40%. On a similar basis Queensland market share has reduced to 5.7%. Australia Direct remains the sole provider of CTP products in the ACT market.

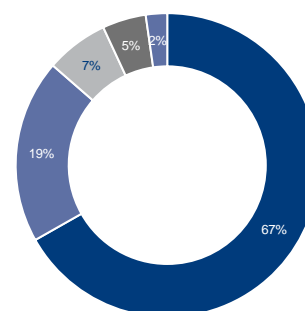
REINSURANCE EXPENSE

Reinsurance expense of \$130m in 1H12 was over 80% higher than 1H11 (\$71m). This reflects the combined effect of:

- Increased catastrophe cover costs stemming from the 1 January 2011 renewal;
- Amortised reinstatement costs; and
- Overall portfolio growth.

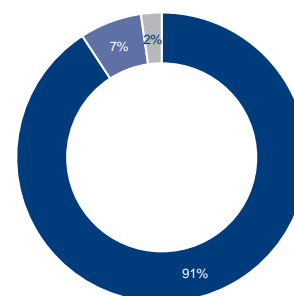
Strong growth in home portfolio, reflecting significant rate increases

1H12 GWP BY STATE



- NSW / ACT
- Victoria
- Queensland
- WA
- SA / Tasmania / NT

1H12 LONG TAIL GWP BY STATE



- NSW / ACT
- Queensland
- Other

Higher 1H12 reinsurance expense, owing to increased catastrophe rates and reinstatement costs

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5. AUSTRALIA DIRECT

CLAIMS

Australia Direct has reported a markedly higher loss ratio of 83.2% in 1H12, compared to 1H11 (66.5%), owing to:

- A substantially higher net natural peril claim cost, reflecting inclusion of the major Victorian storm event in December 2011;
- A significantly adverse movement in the discount rate adjustment stemming from lower interest rates; and
- Some moderate underlying claim inflation, as prior peril events continue to impact the supply chain.

A further contributory factor to the higher loss ratio was the significant increase in reinsurance expense which restricted NEP growth to 3.3%.

On an immunised basis, the higher 1H12 loss ratio of 74.6% (compared to 69.8% in 1H11) highlights the higher net natural peril cost incurred.

RESERVE RELEASES

Reserve releases of \$59m were slightly higher than those reported in 1H11, although well down on 2H11. The majority of 1H12's reserve releases were sourced from the CTP portfolios, following favourable experience against existing underlying assumptions.

RESERVE RELEASES

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|-----------------------------------|--------------|--------------|--------------|
| Reserve releases | 50 | 108 | 59 |
| Impact on insurance margin | 2.8% | 6.0% | 3.2% |

NATURAL PERILS

Losses from natural perils (net of reinsurance) totalled \$192m, which was \$46m higher than allowances for the half. After a relatively benign opening quarter, Australia Direct's 1H12 net natural peril bill was dominated by the severe storms which occurred in Victoria in late December 2011.

Net natural peril experience in 1H11 benefited from reinsurance recoveries in that half, notably via the aggregate cover.

NATURAL PERIL COSTS

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|-----------------------------------|--------------|--------------|---------------|
| Natural perils | (74) | (95) | (192) |
| Natural perils allowance | 91 | 120 | 146 |
| Impact on insurance profit | 17 | 25 | (46) |
| Impact on insurance margin | 0.9% | 1.4% | (2.5%) |

Loss ratio of 83.2% impacted by higher net natural perils and adverse discount rate adjustment

Higher natural peril costs, influenced by Victorian storms in late December

5. AUSTRALIA DIRECT

CLAIM EXPERIENCE

Excluding natural perils, the 1H12 short tail claim experience included:

- Relatively stable frequency compared to 1H11;
- Continued moderate underlying motor repair claim inflation following an extended period of major events;
- Increased collision costs due to the implementation of the Written Off Vehicles Register in NSW; and
- A greater than 15% increase in home average claim cost relative to 1H11, owing to an increased number of severe fire claims.

In NSW CTP, both claim frequency and the proportion of legally represented claims have increased. A recent court decision relating to gratuitous care for Life Time Care participants may add to the upwards trend in claim costs. The ACT CTP portfolio has also experienced higher claim frequency.

EXPENSES

Australia Direct's total expense ratio was in line with 1H11, at 19.0%. Ongoing cost-saving initiatives across the business have contributed to this strong performance, continuing a trend of steady improvement since FY08.

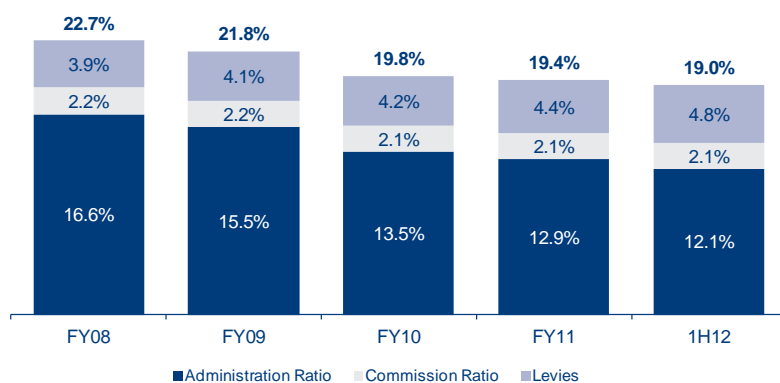
Excluding government levies, Australia Direct's administration expense ratio improved to 12.1% in 1H12, from 12.5% in 1H11, notwithstanding relatively modest NEP growth over that period.

The proportion of the expense ratio attributable to levies has increased to 4.8% (1H11: 4.5%), owing to higher proportional GWP growth in the home portfolio and an increase in Fire Service Levy rates.

Stable frequency within non-peril claim experience

Strong expense discipline in evidence

EXPENSE RATIO



5. AUSTRALIA DIRECT

INSURANCE PROFIT

Australia Direct has reported an insurance profit for 1H12 of \$230m, compared to \$350m in 1H11. This equates to a lower insurance margin of 12.3% (1H11: 19.4%).

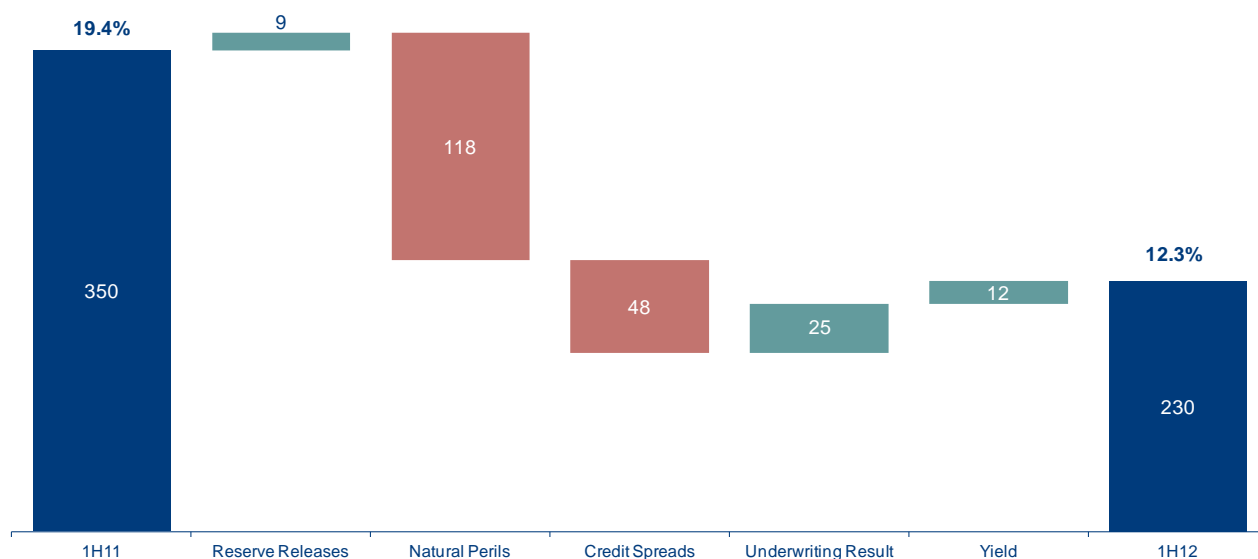
While underlying performance has remained sound, the lower reported outcome compared to 1H11 primarily reflects:

- Increased net natural peril claims, a significant proportion of which relate to the Victorian storms event in late December 2011; and
- An adverse credit spread impact of \$48m, following the resumption of volatile conditions in investment markets.

The lower margin is consistent with guidance provided at the beginning of the financial year, which highlighted that increased reinsurance costs would be recovered over the longer term and would place some pressure on margin in FY12. Higher reinsurance costs in 1H12 restricted NEP growth to 3.3%.

Underlying performance has remained sound

INSURANCE PROFIT – 1H12 VS. 1H11 (A\$M)



INSURANCE PROFIT / MARGIN IMPACTS

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|--------------------------|--------------|--------------|--------------|
| Reserve releases | 50 | 108 | 59 |
| Natural perils | (74) | (95) | (192) |
| Natural perils allowance | 91 | 120 | 146 |
| Credit spreads | * | * | (48) |
| Reserve releases | 2.8% | 6.0% | 3.2% |
| Natural perils | (4.1%) | (5.3%) | (10.3%) |
| Natural perils allowance | 5.0% | 6.7% | 7.8% |
| Credit spreads | * | * | (2.6%) |

* Negligible impact during the period.

5. AUSTRALIA DIRECT

MARKET ENVIRONMENT, REGULATION AND REFORM

Competition remains strong in the Australian personal lines market, as further new entrants emerge and as aggregators continue to attempt to gain a foothold, but with limited success.

The industry as a whole is bearing considerably higher reinsurance costs, following the spate of severe peril events since the conclusion of FY10. This has translated into significant and ongoing rate increases, particularly in the peril-impacted home class. Concurrently, industry participants are carefully monitoring customer retention levels as the issue of affordability gains greater prominence.

Various government reviews and inquiries related to recent major catastrophes are progressing and will continue throughout FY12, including:

- The Federal government's Natural Disaster Insurance Review;
- The Federal parliamentary inquiry into the operation of the insurance industry during disaster events and, more recently, into residential strata title insurance;
- The Queensland Floods Commission of Inquiry;
- The Federal government's Consultation Paper, *Unfair Terms in Insurance Contracts*; and
- The House Economics Committee Review of the Insurance Contracts Amendment Bill 2011.

It is expected that the outcomes of the various reviews/inquiries will result in the insurance industry being asked to undertake a number of reforms, including greater provision of flood cover, increased product disclosure and a standard definition of flood.

Australia Direct has expanded its flood cover during January 2012 and now offers flood insurance in all states. It also supports moves to clearer product disclosure and a standard flood definition.

There are a number of other regulatory changes and reviews underway, which may impact the general insurance industry. These include:

- Replacement of the insurance-based Victorian Fire Services Levy in favour of a new property-based levy by 1 July 2013, with a preceding year-long transition period for insurers from 1 July 2012. This is a positive development for the industry and its customers and leaves NSW as the only remaining state in Australia with a Fire Services Levy on insurance;
- A review of the NSW CTP scheme. Following the regulator's rejection of the filings of all insurers for 1 January 2012, the industry is waiting for the terms of reference of the scheme's review; and
- Potential changes to the CTP scheme in the ACT. The ACT Parliament is holding an inquiry into CTP legislation (Road Transport (Third Party Insurance) Act 2008) and proposed reforms (Road Transport (Third Party Insurance) Bill 2011), with the outcome due in March 2012.

FY12 OUTLOOK

Australia Direct continues to build on improvements already achieved in underwriting quality, both around risk selection and cost control.

Further strong GWP growth is expected in 2H12. This will continue to be driven by rate increases primarily in the home portfolio, with some support from anticipated volume growth.

Rate hardening in home following higher reinsurance costs

Similar margin to first half expected in 2H12

5. AUSTRALIA DIRECT

Product initiatives in 2H12 include the introduction of flood cover as a standard inclusion in Victoria, Queensland, Western Australia and South Australia.

A strong underlying margin is expected in 2H12, similar to that of 1H12. This is despite some emerging pressures in NSW CTP, including the impact of lower investment returns and some signs of increasing costs and frequency, neither of which can be reflected in pricing in the short term.

The full year reported margin will be lower than the 19.5% recorded in FY11. The prior year's outcome was assisted by favourable natural peril experience and significant reserve releases, as well as a negligible credit spread impact.

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6. AUSTRALIA INTERMEDIATED (CGU)

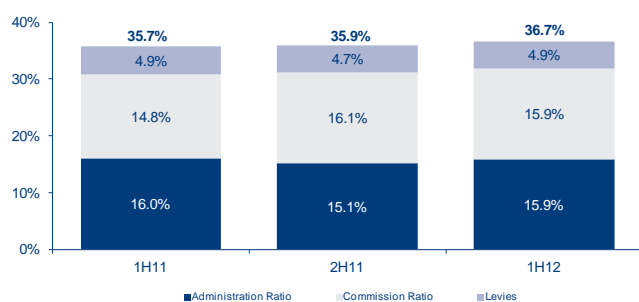
FINANCIAL PERFORMANCE

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---|--------------|--------------|--------------|
| Gross written premium | 1,177 | 1,286 | 1,330 |
| Gross earned premium | 1,170 | 1,170 | 1,307 |
| Reinsurance expense | (94) | (108) | (121) |
| Net earned premium | 1,076 | 1,062 | 1,186 |
| Net claims expense | (591) | (824) | (854) |
| Commission expense | (159) | (171) | (188) |
| Underwriting expense | (225) | (210) | (247) |
| Underwriting profit/(loss) | 101 | (143) | (103) |
| Investment income on technical reserves | 53 | 129 | 182 |
| Insurance profit/(loss) | 154 | (14) | 79 |
| Profit/(loss) from fee based business | 15 | (12) | 9 |
| Share of profit/(loss) from associates | (1) | 2 | - |
| Total divisional result | 168 | (24) | 88 |

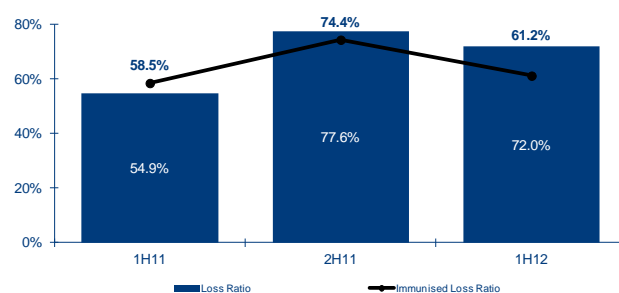
| Insurance Ratios | | | |
|--------------------------|-------|--------|--------|
| Loss ratio | 54.9% | 77.6% | 72.0% |
| Immunised loss ratio | 58.5% | 74.4% | 61.2% |
| Expense ratio | 35.7% | 35.9% | 36.7% |
| Commission ratio | 14.8% | 16.1% | 15.9% |
| Administration ratio | 20.9% | 19.8% | 20.8% |
| Combined ratio | 90.6% | 113.5% | 108.7% |
| Immunised combined ratio | 94.2% | 110.3% | 97.9% |
| Insurance margin | 14.3% | (1.3%) | 6.7% |

INSURANCE RATIOS

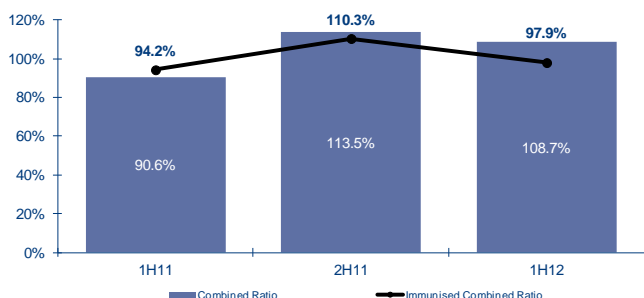
EXPENSE RATIO



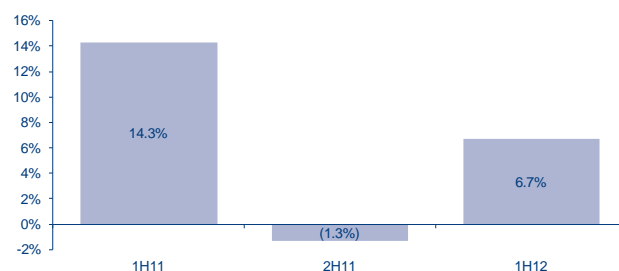
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



6. AUSTRALIA INTERMEDIATED (CGU)

EXECUTIVE SUMMARY

Australia Intermediated (CGU) represented nearly 31% of the Group's GWP in 1H12, and comprises all products sold in Australia through brokers, authorised representatives, motor dealers and business partners.

Reported GWP of \$1,330m increased by 13% compared to 1H11, primarily through a combination of rate increases and acquisitions. This builds on the resumption of top line growth evident in FY11.

CGU produced a total divisional result of \$88m in 1H12 (1H11: \$168m), comprising an insurance profit of \$79m and \$9m from fee based business. The reported insurance margin of 6.7% is lower than 1H11 (14.3%), following the absorption of an adverse movement of over 1,000bps from the combination of higher natural perils, reduced reserve releases and wider credit spreads.

On an underlying basis, CGU registered another encouraging improvement in its profitability during the half. CGU has now delivered an annualised improvement of nearly \$160m since its turnaround commenced at the end of FY08. This reflects a concentrated effort to increase rates, improve risk selection and underwriting, and implement greater claims and cost control.

Further strong GWP growth is expected in 2H12, as rate increases recoup increased reinsurance costs and recent acquisitions contribute further. The general insurance business of HBF was successfully integrated during 1H12 and will add over \$100m of GWP in FY12.

With the business on track to achieve a double digit margin in FY13, CGU is implementing a revised operating model, as the business enters the next stage of its development. This is expected to deliver significant annual pre-tax benefits to the business, of \$25m in FY13 rising to \$65m by the end of FY15. The changes will also result in an anticipated pre-tax charge totalling approximately \$75m, of which around \$35m is expected to be recognised in 2H12 and which will be identified in the Group's net corporate expense line.

PREMIUMS

CGU has reported GWP of \$1,330m, a 13.0% increase over 1H11. This reflects the combined effect of:

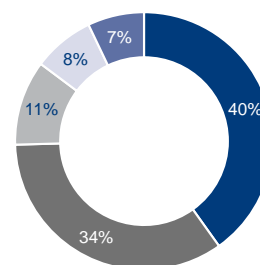
- Broad rate increases across most personal lines and short tail commercial lines products;
- New account wins, notably in workers' compensation;
- Generally stable retention levels; and
- Contributions from recent acquisitions, comprising:
 - \$53m from the general insurance business of HBF, based in Western Australia, acquired on 30 June 2011; and
 - \$29m from the Accident and Health International (A&HI) business, which CGU commenced underwriting on 1 January 2011.

Rate increases have been implemented as a result of increased claim and reinsurance costs, particularly in peril-affected property portfolios. While significant increases have been achieved in larger corporate accounts, the SME segment has yet to experience a similar degree of hardening. Liability rates have remained flat.

CGU continues to improve its underlying performance

Strong GWP growth driven by rate increases and acquisitions

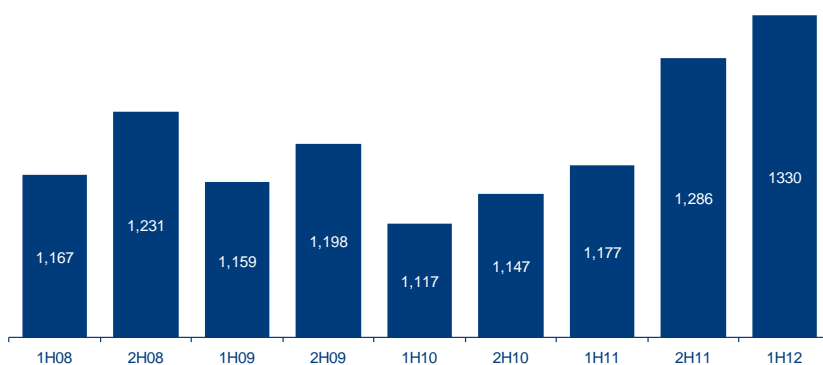
1H12 GWP BY CLASS



- Commercial Short Tail
- Personal Lines
- Commercial Long Tail
- Workers' Compensation
- Other

6. AUSTRALIA INTERMEDIATED (CGU)

GWP (A\$M)



REINSURANCE EXPENSE

CGU's reinsurance expense of \$121m is nearly 30% higher than that recorded in 1H11 (\$94m), as a result of:

- Increased catastrophe cover costs stemming from the 1 January 2011 renewal;
- Amortised reinstatement costs;
- Reinsurance associated with the newly-acquired HBF business; and
- Overall business growth, especially in the property portfolio which has associated high levels of reinsurance.

CLAIMS

CGU's reported loss ratio of 72.0% in 1H12 is higher than the 54.9% recorded in 1H11. The significant increase in net claims expense, to \$854m, is a direct result of adverse natural perils experience and discount rate adjustment movements.

The increase in net claims expense should also be viewed against the backdrop of higher business volumes, notably those sourced from recent acquisitions.

Underlying claim performance has improved, with a number of initiatives delivering claim indemnity savings that have served to offset a degree of post-event claim inflation still evident in the supply chain.

Claim frequency for the majority of classes has trended slightly down, on the same period last year.

On an immunised basis, the loss ratio has deteriorated slightly, from 58.5% in 1H11 to 61.2% in 1H12.

RESERVE RELEASES

Prior period reserve releases of \$40m were lower than those reported in 1H11 (\$65m). These were sourced largely from the workers' compensation and professional risks portfolios, where claim experience has been favourable against underlying assumptions.

While still accounting for a greater than 300bps impact on the reported insurance margin in 1H12, the contribution from reserve releases is expected to reduce over the longer term.

Increased reinsurance expense owing to higher catastrophe rates and reinstatement costs

Higher 1H12 loss ratio reflects increased natural peril activity and adverse discount rate adjustment

Favourable experience in long tail classes driving reserve releases, but at reduced level

6. AUSTRALIA INTERMEDIATED (CGU)

RESERVE RELEASES

| | 1H11 | 2H11 | 1H12 |
|-----------------------------------|-------------|--------------|-------------|
| | A\$m | A\$m | A\$m |
| Reserve releases | 65 | 113 | 40 |
| Impact on insurance margin | 6.0% | 10.6% | 3.4% |

NATURAL PERILS

Losses from natural perils in 1H12 (net of reinsurance) totalled \$116m, \$27m higher than related allowances for the period and \$72m higher than net losses incurred in 1H11. The most significant event in the half was the severe storm event which occurred in Victoria in late December 2011.

Comparison of net natural peril experience with 1H11 should also allow for the material reinsurance recoveries in that half, notably via the aggregate cover.

Natural peril experience in the intervening half, 2H11, was dominated by the sequence of major events in Queensland and regional Australia, where CGU has a larger market presence than Australia Direct.

NATURAL PERIL COSTS

| | 1H11 | 2H11 | 1H12 |
|-----------------------------------|-------------|----------------|---------------|
| | A\$m | A\$m | A\$m |
| Natural perils | (44) | (272) | (116) |
| Natural perils allowance | 72 | 103 | 89 |
| Impact on insurance profit | 28 | (169) | (27) |
| Impact on insurance margin | 2.6% | (15.9%) | (2.3%) |

EXPENSES

Reported expenses, comprising commission and underwriting costs, have increased from \$384m in 1H11 to \$435m in 1H12. This translates to a slightly higher expense ratio of 36.7%, compared to 35.7% in 1H11.

The 13.3% increase in expenditure houses two main elements:

- A \$29m, or 18%, increase in commission expense, reflecting overall GWP growth of 13% and changing business mix partly associated with recent acquisitions, notably A&HI; and
- The reclassification of \$8m of costs previously identified in the net claims expense, following an independent review of internal allocation processes to bring them in line with industry benchmarks.

INSURANCE PROFIT

CGU has reported an insurance profit of \$79m, compared to \$154m in 1H11. This equates to an insurance margin of 6.7% (1H11: 14.3%). After stripping out all natural peril, reserve release and credit spread impacts, there is a continued clear improvement in CGU's underlying performance, building on the progress already evident and derived from a broad range of initiatives.

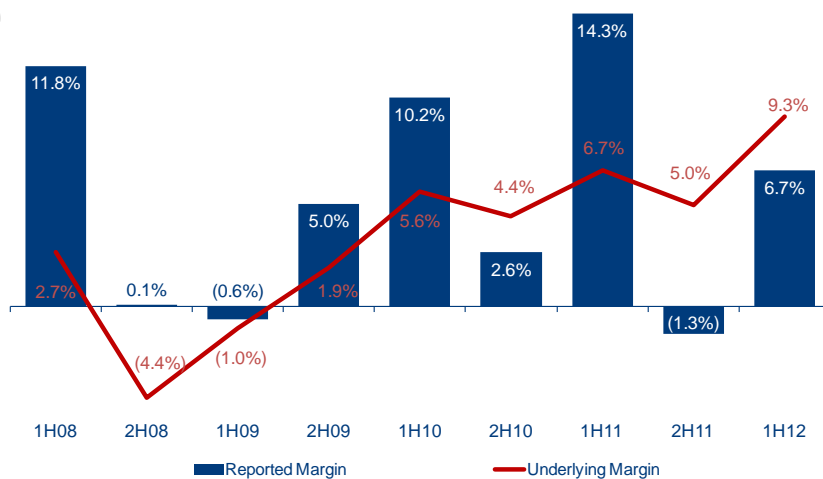
Adverse peril experience against allowances, following late December Victorian storm event

Slightly higher expense ratio, influenced by changed business mix

Improved underlying performance continues

6. AUSTRALIA INTERMEDIATED (CGU)

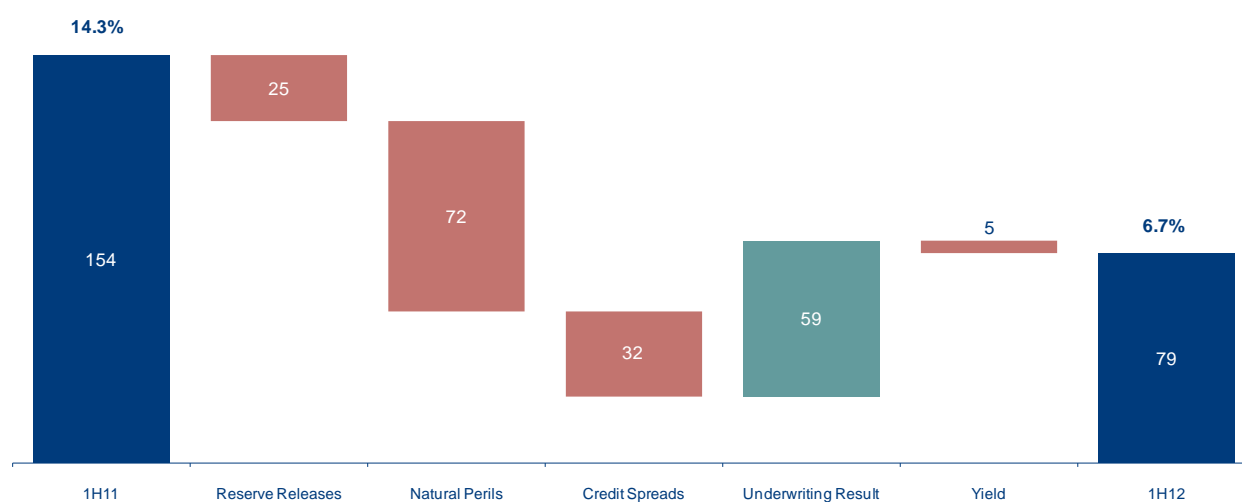
REPORTED VS. UNDERLYING INSURANCE PROFIT (A\$M)



The weaker reported outcome compared to 1H11 primarily reflects:

- Increased net natural peril claim costs, including the Victorian storms event in late December 2011; and
- An adverse credit spread impact of \$32m, following the resumption of volatile conditions in investment markets.

INSURANCE PROFIT – 1H12 VS. 1H11 (A\$M)



6. AUSTRALIA INTERMEDIATED (CGU)

INSURANCE PROFIT / MARGIN IMPACTS

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|--------------------------|--------------|--------------|--------------|
| Reserve releases | 65 | 113 | 40 |
| Natural perils | (44) | (272) | (116) |
| Natural perils allowance | 72 | 103 | 89 |
| Credit spreads | * | * | (32) |
| Reserve releases | 6.0% | 10.6% | 3.4% |
| Natural perils | (4.1%) | (25.6%) | (9.8%) |
| Natural perils allowance | 6.7% | 9.7% | 7.5% |
| Credit spreads | * | * | (2.7%) |

* Negligible impact during the period.

FEE BASED INCOME / SHARE OF ASSOCIATES

CGU generates fee income by acting as an agent under both the NSW and Victorian workers' compensation schemes that are underwritten by the respective state governments. In 1H12, net income from fee based operations was \$9m, compared to \$15m in 1H11.

While the standard fees covering expenses are reasonably predictable, the total reported fee-based result will continue to be volatile on a half-by-half basis owing to the receipt of performance fees and prior year experience adjustments paid or charged by the state bodies. These fees tend to be received in the opening half of CGU's financial year.

The 1H12 result contained \$4m of prior period fee income compared to \$10m in 1H11. Excluding this income, the underlying result was in line with the same period in the prior year.

Net income from associates was modest in both 1H12 and 1H11.

MARKET ENVIRONMENT, REGULATION AND REFORM

Intermediated market conditions remain competitive with excess capacity still apparent. There is increasing evidence of hardening in the market, in response to increasing reinsurance costs and higher natural peril claims, however the pricing outlook varies by market segment.

Property rates are hardening and increases are being achieved on both personal and commercial lines. Commercial lines are largely being driven by rate increases in the corporate segment, whereas SME increases have been minimal to date.

In personal and commercial motor, industry rate increases have slowed, driven by competition and improved underlying profitability. Corporate rates vary by class, with increases in property influenced by large losses but liability classes experiencing a downward movement in rates owing to overseas capacity.

Workers' compensation risk states are starting to see a hardening of rates. WorkCover NSW has commenced discussions to improve agent remuneration arrangements.

Various government reviews and inquiries related to recent major catastrophes are progressing and will continue throughout FY12, including:

- The Federal government's Natural Disaster Insurance Review;

Reduced fee based income from workers' compensation schemes

Market hardening in some segments

6. AUSTRALIA INTERMEDIATED (CGU)

- The Federal parliamentary inquiry into the operation of the insurance industry during disaster events and, more recently, residential strata title insurance;
- The Queensland Floods Commission of Inquiry;
- The Federal government's Consultation Paper, *Unfair Terms in Insurance Contracts*; and
- The House Economics Committee Review of the Insurance Contracts Amendment Bill 2011.

It is expected that the outcomes of the various reviews and inquiries will result in the insurance industry being asked to undertake a number of reforms, including greater provision of flood cover in policies, increased disclosure and standardisation of flood definitions.

CGU supports a common definition of flood as well as increased disclosure through greater transparency and accountability. From February 2012, CGU's home, contents and landlords policies automatically include cover for flood on renewal. CGU has not previously provided flood cover, and its decision to do so reflects improved access to flood mapping data from local councils and state governments and the Federal government's commitment to develop a central, consistent source of flood mapping data.

There are a number of other regulatory changes and reviews underway, which may impact the general insurance industry. These include the replacement of the insurance-based Victorian Fire Services Levy in favour of a new property-based levy by 1 July 2013, with a preceding year-long transition period for insurers from 1 July 2012.

FY12 OUTLOOK

CGU expects to record an improved full year underlying performance, as it progresses towards a targeted double digit margin in FY13. Profitable growth will continue to be achieved from both organic and acquisitive sources, while an increased focus on the expense base will drive overall efficiency.

CGU expects to deliver strong full year GWP growth, driven by broad-based rate increases and contributions from recent acquisitions. The HBF general insurance business, acquired on 30 June 2011, is performing to expectations and will contribute over \$100m of incremental GWP.

From February 2012, CGU's home, contents and landlords policies will automatically include cover for flood on renewal, ensuring its customers are fully covered in the event of storm or flood water damage to their properties. This will also speed up the claim process by removing the need for complex assessments. The additional claim costs that will flow from this initiative will be offset by appropriate risk-based pricing for these new exposures.

In 2H12, CGU will enter the next phase of its development with the move to a revised operating model, which will build on the substantial turnaround achieved to date. This is expected to deliver significant annual pre-tax benefits to the business, of \$25m in FY13 rising to \$65m by the end of FY15, as CGU continues to drive improvements in operating performance and customer focus.

The changes will result in an anticipated pre-tax charge totalling approximately \$75m, of which around \$35m is expected to be recognised in 2H12 with the balance in FY13. These costs will be identified within the Group's net corporate expense line, below the reported insurance profit, and thus are excluded from the Group's insurance margin guidance.

Improvement in underlying performance expected in FY12

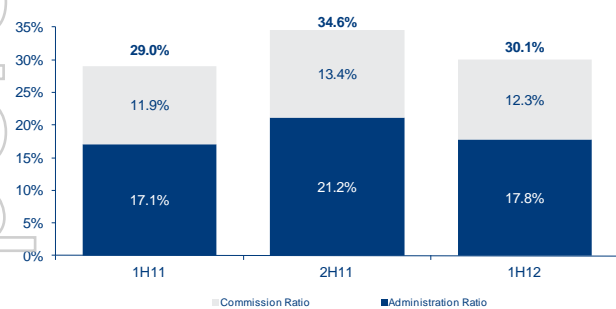
7. NEW ZEALAND

FINANCIAL PERFORMANCE

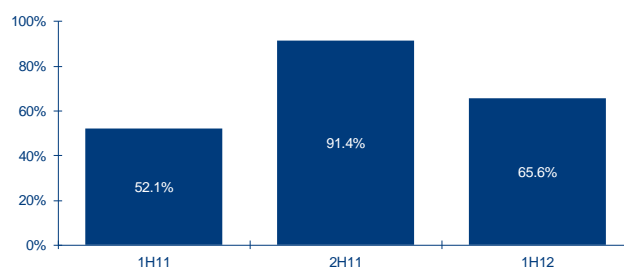
| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---|--------------|--------------|--------------|
| Gross written premium | 472 | 484 | 538 |
| Gross earned premium | 484 | 463 | 517 |
| Reinsurance expense | (29) | (90) | (63) |
| Net earned premium | 455 | 373 | 454 |
| Net claims expense | (237) | (341) | (298) |
| Commission expense | (54) | (50) | (56) |
| Underwriting expense | (78) | (79) | (81) |
| Underwriting profit/(loss) | 86 | (97) | 19 |
| Investment income on technical reserves | 4 | 10 | 14 |
| Insurance profit/(loss) | 90 | (87) | 33 |
| Profit from fee based business | - | 1 | 1 |
| Total divisional result | 90 | (86) | 34 |
| Insurance Ratios | | | |
| Loss ratio | 52.1% | 91.4% | 65.6% |
| Expense ratio | 29.0% | 34.6% | 30.1% |
| Commission ratio | 11.9% | 13.4% | 12.3% |
| Administration ratio | 17.1% | 21.2% | 17.8% |
| Combined ratio | 81.1% | 126.0% | 95.7% |
| Insurance margin | 19.8% | (23.3%) | 7.3% |

INSURANCE RATIOS

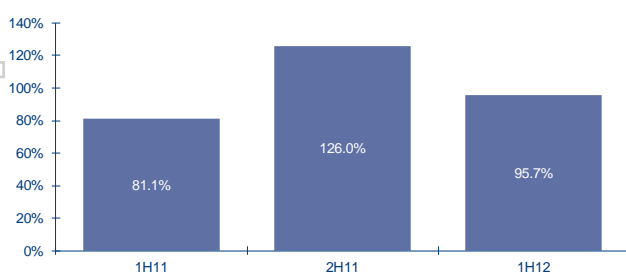
EXPENSE RATIO



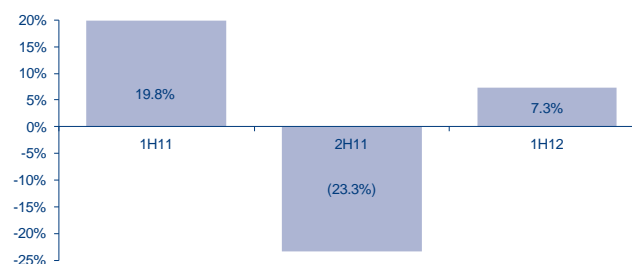
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



7. NEW ZEALAND

EXECUTIVE SUMMARY

IAG's New Zealand operations accounted for over 12% of the Group's GWP in 1H12. Through the State, NZI and Business Partners affinity brands, IAG is the largest underwriter in New Zealand.

The aftermath of FY11's Canterbury earthquakes has continued to significantly impact the country's general insurance market, while the Christchurch rebuild has been delayed by ongoing seismic activity and government land zoning announcements.

The New Zealand business has moved back into profit in 1H12, after the earthquake-induced loss of 2H11. The period saw a return to more normal weather patterns and experienced less damaging earthquake activity. The most notable event in the period was the series of aftershocks experienced in Canterbury shortly before Christmas, which resulted in a net claim cost of \$8m.

A reported insurance margin of 7.3% is after absorption of an increase in reinsurance costs of over 100%, compared to 1H11. Strong GWP growth has been recorded, of 14.1% in local currency terms, reflecting the significant rate increases implemented to recover higher reinsurance costs, as well as encouraging new business growth in intermediated commercial lines. Underlying performance has remained strong.

While market conditions are expected to remain challenging in the short term, IAG remains confident about the long term outlook for the local industry. In December 2011, IAG announced it had entered into an agreement to purchase the AMI insurance business for NZ\$380m (approximately A\$288m). The acquisition, which is subject to regulatory approval, will increase the New Zealand business' annual GWP by approximately NZ\$360m, reinforcing its market-leading position, notably in direct personal motor lines.

PREMIUMS

New Zealand's 1H12 GWP of \$538m represented a 14% increase over 1H11. Local currency GWP growth was of a similar magnitude, and was driven by post-earthquake rate increases across most products. All three distribution channels reported growth, and particularly the NZI intermediated channel.

Significant price increases have been achieved in commercial lines portfolios, while rate rises of up to 30% are being applied to domestic home portfolios. Despite the scale of rate increases in home, retention levels have held up well.

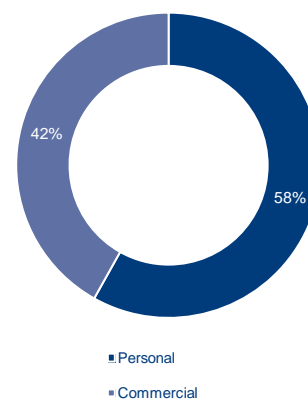
The NZI intermediated business represents just over half of IAG New Zealand's GWP. With hardening market conditions evident after the September 2010 earthquake, the business is well-advanced in achieving rate increases that compensate for the large increase in reinsurance expense being incurred. While retention is holding, new business growth is improving.

NZI expects to record further GWP growth, and is maintaining a strong focus on underwriting discipline. Restrictions on new business being written in the Canterbury region are still in place. NZI's strong market standing was evidenced by it winning '2011 Insurer of the Year' at the Insurance Brokers Association of New Zealand (IBANZ) General Insurance Industry Awards.

State Insurance, the largely direct personal lines business, represents approximately 30% of New Zealand's GWP. State has put significant rate increases through its home building portfolio, which represents just over 20% of its book, while applying moderate increases to its home contents and

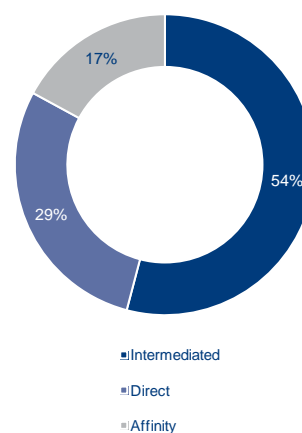
Return to reported profitability following reduced earthquake impacts

1H12 GWP BY CLASS



Local currency GWP growth of 14%, weighted towards NZI intermediated business

1H12 GWP BY CHANNEL



7. NEW ZEALAND

motor offerings. State continues to focus on customer growth and targeting quality business through operational initiatives centred around call volumes, retention and conversion rates.

GWP growth in the Business Partners affinity channel has been largely rate driven, with both retention and new business levels improving. While large rate increases have been achieved in the home portfolio, only modest increases were targeted in motor, which is the largest portfolio in this channel. The travel and niche auto product areas experienced flat to low growth.

REINSURANCE EXPENSE

Reinsurance expense of \$63m is over 100% higher than 1H11 (\$29m). The increase reflects the combined effect of:

- Increased catastrophe cover costs stemming from the 1 January 2011 renewal; and
- Amortised reinstatement costs.

The 1H12 reinsurance expense is lower than the \$90m reported in 2H11, which bore a greater proportion of Group-wide reinstatement costs.

CLAIMS

The 1H12 net claims expense of \$298m is an increase of over 25% against 1H11, resulting in a loss ratio of 65.6% (1H11: 52.1%). This increase can be largely attributed to increased net natural peril costs, while also including a modest reserve strengthening.

While net natural peril costs of \$23m were within related allowances for the period, this compared unfavourably with 1H11 where the two major events in the half (the snowstorm and earthquake in September 2010) were fully covered by reinsurance. The most significant event in 1H12 was the series of aftershocks in Christchurch in December 2011, amounting to \$8m.

As at 31 December 2011, the New Zealand business had paid in excess of NZ\$940m of gross claims in respect of the Canterbury earthquakes which occurred in FY11. Of this, approximately 70% relates to material damage and business interruption claims.

Working claims experience continues to be favourable, with lower frequency slightly offset by higher claim inflation. Large claims (>NZ\$100,000) incidence was higher than 1H11 and was closer to typical experience.

EXPENSES

Total reported expenses in 1H12, of \$137m, were slightly higher than 1H11 (\$132m). This resulted in a modest deterioration in expense ratio to 30.1%, given a backdrop of flat NEP, where higher reinsurance costs negated gross earned premium growth.

Commission expense has increased by nearly 4% to \$56m, producing a commission ratio of 12.3% (1H11: 11.9%). This is not as high as gross earned premium growth and reflects the significant rate increases achieved on earthquake risks which attract a lower commission rate.

Underwriting expenses of \$81m were nearly 4% higher than the equivalent cost in 1H11. This mainly reflects inflationary increases, including higher salary and staff related costs. Underlying expense control remains tight.

Material increase in reinsurance costs reflecting earthquake effects

Natural peril activity within 1H12 allowances

Underlying expense control remains tight

7. NEW ZEALAND

INSURANCE PROFIT

The 1H12 insurance profit of \$33m represents a strong recovery from the \$87m loss reported in 2H11, but is well down on the \$90m profit in 1H11.

The 7.3% margin reported in 1H12 is considerably lower than 1H11's 19.8%, and is explained by the following key influences:

- Significantly higher reinsurance costs keeping NEP flat;
- Higher net natural peril claim costs, with large events in 1H11 fully covered by reinsurance; and
- A lower investment yield, owing to reduced interest rates.

The business' underlying underwriting performance remained strong.

MARKET ENVIRONMENT, REGULATION AND REFORM

The response to the Canterbury earthquakes continues to be a complex situation to manage, with progress towards settling claims influenced by ongoing seismic activity and the land decisions being managed by the government. Treasury has estimated that the combined cost of the earthquakes is around NZ\$30bn, with an associated material effect on the profitability of the general insurance market.

The government and the New Zealand Earthquake Commission (EQC) have completed zoning for the vast majority of the residential land in Christchurch. As at the end of calendar 2011, this had resulted in:

- Approximately 6,800 properties being red-zoned, and unfit for rebuild;
- 3,700 remaining in the white zone (hillside suburbs affected by rock fall); and
- Over 900 in the orange zone (future still to be determined).

All other parts of Christchurch have been zoned green, but with three new sub-categories created based on likely foundation requirements to mitigate damage caused by liquefaction in any future earthquake.

Assuming seismic activity reduces to an acceptable level, the current expectation is that the rebuild will start to pick up in the second half of FY12 as customers make definite choices from the options available and construction methods are developed.

Most insurers are now re-pricing commercial and domestic products to reflect the higher cost of reinsurance and some insurers have exited or reduced concentrations in the current market.

Price increases are starting to put pressure on the domestic market in particular, as affordability becomes a greater concern. This is being exacerbated by the trebling of EQC levies, with effect from 1 February 2012, as the government moves to rebuild the earthquake funds. In the commercial sector there is greater market awareness of under-insurance, as customers evaluate their risk requirements.

In October 2011 the Reserve Bank issued a revised version of the non-life solvency standard that forms part of the new prudential regime for insurers. Under the new supervisory regime, existing insurers are required to have a licence by 7 March 2012. Licenced insurers will be required to hold specific levels of capital under the solvency standards issued by the Reserve Bank. These standards include the requirement to have sufficient capital and catastrophe reinsurance to cover a 1-in-1000 year event, from September 2016.

**Strong underlying
profitability maintained**

**Hardening market, driven by
increased reinsurance costs,
but further delays to rebuild**

7. NEW ZEALAND

Prior to winning the November 2011 election, the government identified privatisation of the Accident Compensation Corporation (ACC) work account as a priority. Further detail is awaited. If the resultant scheme design facilitates true competition, IAG has indicated it will consider entering this business.

FY12 OUTLOOK

Strong GWP growth is expected for the balance of FY12, as rate increases continue to be rolled out. IAG continues to closely monitor their impact on affordability, with the significant increase in the EQC levy set to compound the effect.

Despite the subdued local economy, underlying profitability is expected to remain strong, reflecting a number of key factors:

- The strong earnings base generated from corrective pricing action taken in previous years;
- Continued emphasis on disciplined underwriting in the broker channel, avoiding unfavourable risks as competitors reduce capacity or exit the market, while taking advantage of suitable growth opportunities as they arise;
- Claim disciplines continuing to contain frequency and claim inflation. At an operational level, non-earthquake customers have been separated from the earthquake response to ensure that all customers receive positive claim experiences irrespective of event; and
- Continued focus on tightly managing expenses across the business.

In December 2011, IAG announced it had entered into an agreement to purchase the AMI insurance business for NZ\$380m (approximately A\$288m), reflecting its confidence in the long term outlook for the local industry.

The addition of AMI will enhance IAG's position as the largest general insurer in New Zealand and will deliver a clear market leadership position in direct personal motor lines, centred on the iconic State and AMI brands. It is expected to be earnings per share accretive in its first full year of ownership, excluding integration costs and amortisation of identified intangibles.

The acquisition excludes all of AMI's liabilities relating to claims from the earthquakes which have affected the Canterbury region, and remains subject to regulatory approval. Completion is expected in 2H12.

Improved margin expected in FY12, as natural perils revert to more normal levels

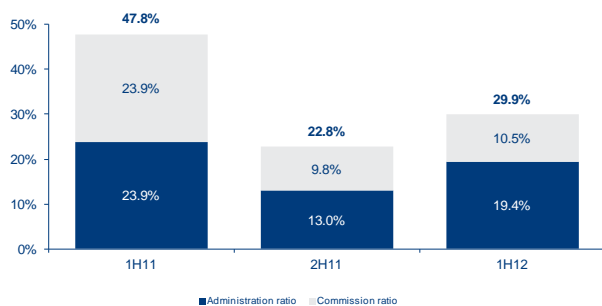
8. UNITED KINGDOM (UK)

FINANCIAL PERFORMANCE

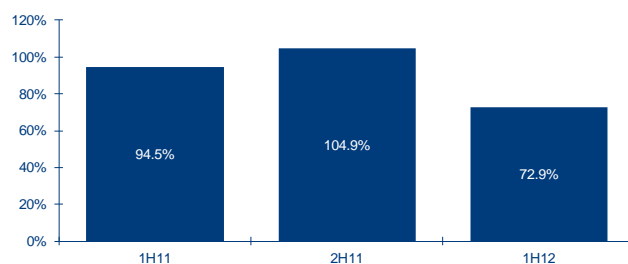
| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---|--------------|--------------|--------------|
| Gross written premium | 271 | 275 | 273 |
| Gross earned premium | 309 | 293 | 279 |
| Reinsurance expense | (16) | (47) | (21) |
| Net earned premium | 293 | 246 | 258 |
| Net claims expense | (277) | (258) | (188) |
| Commission expense | (70) | (24) | (27) |
| Underwriting expense | (70) | (32) | (50) |
| Underwriting (loss) | (124) | (68) | (7) |
| Investment income on technical reserves | 3 | 8 | 2 |
| Insurance (loss) | (121) | (60) | (5) |
| Profit/(loss) from fee based business | 2 | - | (2) |
| Total divisional result | (119) | (60) | (7) |
| Insurance Ratios | | | |
| Loss ratio | 94.5% | 104.9% | 72.9% |
| Expense ratio | 47.8% | 22.8% | 29.9% |
| Commission ratio | 23.9% | 9.8% | 10.5% |
| Administration ratio | 23.9% | 13.0% | 19.4% |
| Combined ratio | 142.3% | 127.7% | 102.8% |
| Insurance margin | (41.3%) | (24.4%) | (1.9%) |

INSURANCE RATIOS

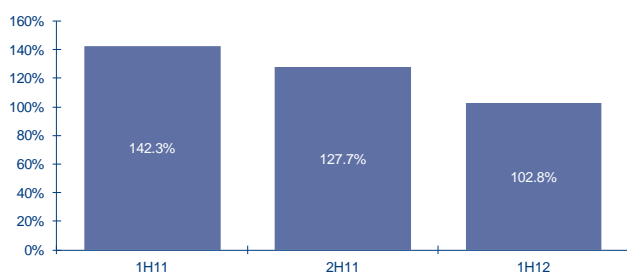
EXPENSE RATIO



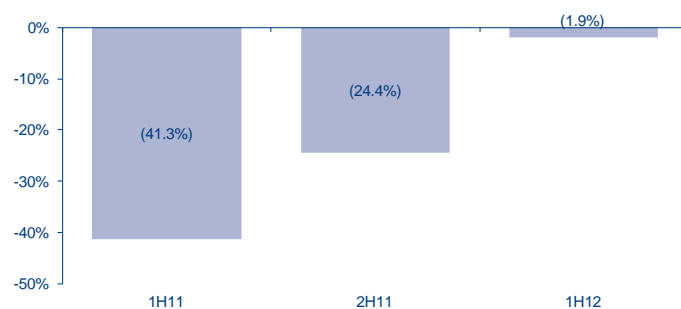
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



8. UNITED KINGDOM (UK)

EXECUTIVE SUMMARY

IAG's business in the United Kingdom (UK) accounted for 6.3% of the Group's GWP in 1H12, compared to nearly 7% in 1H11. The main components of the business are:

- Equity Red Star (ERS), the largest motor syndicate at Lloyd's;
- The Equity Insurance Partnerships (EIP) affinity business (previously called Equity Direct Broking Limited (EDBL)), which works with a number of major financial brands and large motor manufacturers; and
- Specialist commercial brokers, Barnett & Barnett and NBJ, that now trade under the name Independent Commercial Brokers (ICB).

The performance of the UK business has shown considerable improvement in 1H12, as further benefits of the extensive programme of remedial actions are realised in all areas of the business.

Whilst an improvement against both 2H11 and 1H11, the 1H12 results continue to be influenced by:

- The ongoing market issue of bodily injury claim inflation, driven by aggressive claim farming activities and exacerbated by prolonged recessionary conditions;
- The time taken to re-establish a number of key broker relationships on a financially mutual basis; and
- Turbulent investment markets that have resulted in negligible investment returns on significantly higher funds under management.

The adverse development covers (ADCs) acquired in 2H10 and 2H11 for the underwriting years up to and including 31 December 2010 continue to provide considerable protection.

During the period, settlement was reached with Lloyd's following a review by its Market Supervision and Review Committee. In determining the settlement, Lloyd's acknowledged the substantial remedial actions already implemented. Under the terms of the settlement, a contribution of £95,000 will be made to Lloyd's external costs and is included in the 1H12 result. The business' involvement in this process is now concluded.

It remains the Group's expectation that the business will report a close to breakeven result for FY12.

PREMIUMS

Reported GWP for 1H12 of \$273m was flat compared to the two preceding halves. In local currency terms, GWP was nearly 8% higher than 1H11, with the reported outcome reflecting the impact of the strong Australian dollar on translation.

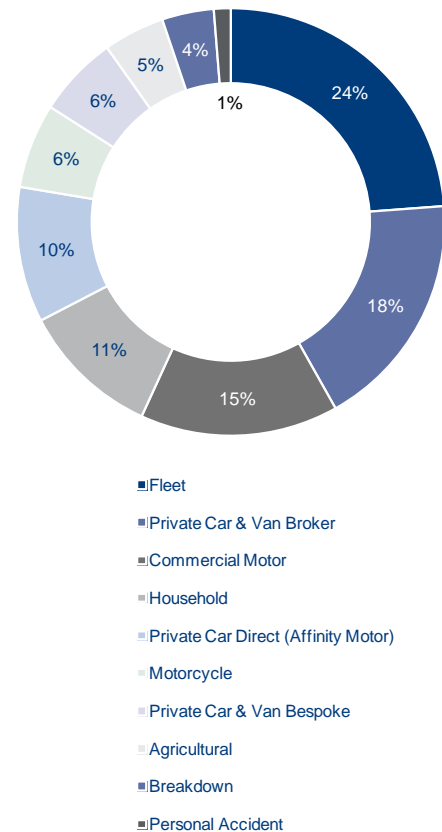
Consistent with the performance in FY11, there are two underlying trends driving this outcome:

- Significant rate increases, applied across most key portfolios; offset by
- Lower volumes stemming from remedial actions, including the deliberate exit from aggregator-originated sources and the cancellation of certain broker relationships. Underlying policy volumes are down by almost 23% compared to FY10.

The reduction in volumes has been seen in all major classes of business but has been most pronounced in broker-sourced standard private car, fleet, motorcycle and household. Volume declines have been in line with expectations.

Further progress towards breakeven reflected in small 1H12 loss

1H12 GWP BY CLASS



Significant rate increases offset by intentional volume loss

8. UNITED KINGDOM (UK)

CLAIMS

The UK business' reported loss ratio of 72.9% in 1H12 represents a significant improvement over the two preceding halves.

The improved 1H12 ratio reflects the net effect of:

- Ongoing bodily injury claim inflation, but at a lower rate than prior periods;
- The growing impact of rate increases enforced across the portfolio;
- Some modest reserve releases in the period;
- Benign weather conditions, compared to the extremely harsh winter weather experienced in 1H11; and
- The recessionary impact of lower car usage and therefore lower accident frequency.

Residual available cover under the first ADC in respect of the 2009 and prior calendar years, of over \$60m at 31 December 2011, is broadly unchanged from the position at 30 June 2011.

The second ADC, in respect of the calendar 2010 underwriting year, remains unutilised.

EXPENSES

Total reported expenses have decreased from \$140m in 1H11 to \$77m in 1H12, resulting in a reported expense ratio of 29.9%. This outcome has been favourably impacted by liability adequacy test-related movements, as well as a decrease in costs related to the remediation programme and lower costs associated with Syndicate 1208, which remains in run-off.

No LAT fail was recognised at 31 December 2011, continuing the improving trend since 31 December 2010, which reflects the impact of increased pricing and better risk selection.

On an underlying basis, both the commission and underwriting expense ratios have deteriorated slightly since 1H11. A contributory factor is the increased expenditure associated with the strengthening of the local management team and resources in key areas such as actuarial, pricing and regulatory reporting. This will be reflected in future reported total expense ratios which, in the short term, are expected to exceed 30% (1H12: 29.9%).

As previously reported, management continues to examine ways to improve the efficiency of the business, given the reduction in business volumes incurred over the past 18 months. This process includes organisational restructures and a review of commission and other expenses, to ensure a sustainable cost base is established.

INSURANCE LOSS

Whilst the UK business has again produced an improved result, the reported 1H12 loss of \$5m equates to a negative margin of 1.9%.

The underlying improvement reflects the positive impact of remediation plan actions, including substantial increases in premium rates, as the business moves towards profitability.

ADC protection broadly unchanged

Expense ratios distorted by LAT effects

Reduced 1H12 loss in line with expectations

8. UNITED KINGDOM (UK)

FEE BASED INCOME

Fee based operations, comprising EIP and ICB, made a \$2m loss in 1H12, compared to a \$2m profit in 1H11.

EIP has experienced a challenging start to FY12, largely as a result of lower new business volumes through its main affinity partners, first direct and Santander. Although retention rates are slightly down on those achieved in the prior year, actual renewal volumes have remained at similar levels to those achieved in 1H11.

In 1H12 EIP added additional underwriting panel members and launched new product initiatives and technological developments (e.g. SMS), which should result in new income streams in 2H12.

ICB is also experiencing difficult market conditions with commercial new business particularly hard to obtain and margins on renewal business being put under pressure due to competition.

MARKET ENVIRONMENT, REGULATION AND REFORM

Conditions in the UK general insurance market remain challenging. Following years of releases, reserves were topped up in the UK motor market in 2010, however the industry's underlying combined operating ratio (COR) of 116% did show the first signs of improvement since 2002.

Substantial price increases have been applied over the last 12-24 months, however these are showing signs of slowing, with the latest British Insurance Premium Index from the AA registering an annual increase of 9.5% in the year to 31 December 2011, compared to over 29% a year earlier. These increases are in response to the claim inflation in the market, driven by the prevalence of motor claim fraud in certain segments, the spiralling cost of credit hire claims and continued inflation in the frequency and severity of third party bodily injury claims, including an increase in the number of injured parties per accident.

The increase in private motor premiums continues to attract government attention, with the House of Commons Transport Select Committee publishing its second report on the cost of motor insurance. The report identifies the escalation of uncontested claims for whiplash injury as the key factor behind the spiralling cost of motor insurance. It urges action to set a higher benchmark of proof for compensation payments in whiplash cases, as well as examination of options to curtail the selling-on of customer details and resultant cold calling to generate personal injury claims.

In February 2012, the UK Prime Minister, David Cameron, met with representatives from the insurance industry and consumer and business groups as part of the government's commitment to tackle the compensation culture, reduce legal costs and cut health and safety red tape. As a result, the government and the insurance industry have agreed to work together on a series of measures. These include a reduction in the current £1,200 fee that lawyers can earn from small value personal injury claims and further investigations to identify effective ways to reduce the number and cost of whiplash claims, such as improved medical evidence, technological breakthroughs, the threshold for claims and the speed of accidents. The insurance industry has committed, wherever possible, to pass savings onto customers and to look at ways to improve young drivers' risk and safety, such as via the wider use of telematics or 'smartbox' technology.

**Fee based operations
experiencing challenging
conditions in FY12**

**Greater evidence of
government reform intent**

8. UNITED KINGDOM (UK)

Following its call for evidence into the increase in private motor insurance premiums, the Office of Fair Trading (OFT) has launched an investigation into the provision of third party vehicle repairs and credit hire replacement vehicles to motor accident claimants. The OFT also has concerns about the sale of motor legal protection cover to car owners and has requested that the Financial Services Authority (FSA) work with insurers to investigate this further.

The second reading of former Secretary of State for Justice, Jack Straw's, Motor Insurance Regulation Bill has however lapsed and there is currently no indication of when it may progress further. The Bill attempted to take the civil litigation reforms recently announced by the government even further, by proposing that legislation should prevent insurers using postcodes to calculate motor insurance premiums.

The implementation of civil litigation reforms announced by the UK government, which include the proposal for an outright ban on referral fees, has been delayed until April 2013. The reforms were included in part two of the Legal Aid, Sentencing and Punishment of Offenders Bill, and include Lord Jackson's recommendations on 'no win, no fee' cases. The planned start date has been put back to allow the government more time to prepare for the changes.

Following announcements by the European Parliament, the FSA has stated it expects insurers to comply with Solvency II rules from the delayed date of 1 January 2014.

FY12 OUTLOOK

The benefits of the remediation programme have placed the business on track to produce a much-improved, close to breakeven result for FY12.

While there are signs that rate increases are flattening in certain classes, notably private car, other segments, such as commercial motor and motorcycle, are still progressing steadily. A relatively flat GWP outlook is predicted for 2H12 with lower rate increases and lower volume loss.

The return to profitability will be influenced by economic conditions in the UK, particularly movements in interest rates and their effect on investment returns. In addition, the government's proposed tort reform is keenly awaited, however this will have no effect on the FY12 results.

Within fee based business, work continues in EIP on widening the insurer panel and acquiring new affinity partners.

Preparation for the Solvency II regulatory regime continues in line with the required timetable.

On track to deliver close to breakeven FY12 result

9. ASIA

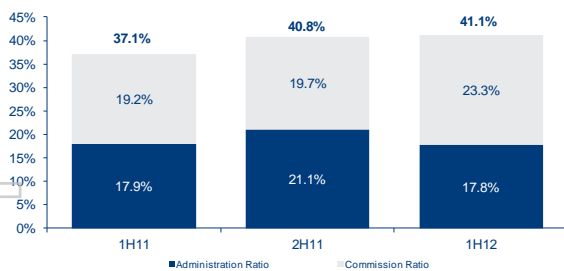
FINANCIAL PERFORMANCE

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---|--------------|--------------|--------------|
| Gross written premium | 97 | 92 | 94 |
| Gross earned premium | 95 | 89 | 92 |
| Reinsurance expense | (17) | (18) | (19) |
| Net earned premium | 78 | 71 | 73 |
| Net claims expense | (52) | (44) | (114) |
| Commission expense | (15) | (14) | (17) |
| Underwriting expense | (14) | (15) | (13) |
| Underwriting (loss) | (3) | (2) | (71) |
| Investment income on technical reserves | - | 1 | 4 |
| Insurance (loss) | (3) | (1) | (67) |
| Share of profit from associates | 1 | (4) | (1) |
| Total divisional result | (2) | (5) | (68) |
| Insurance Ratios¹ | | | |
| Loss ratio | 66.7% | 62.0% | 156.2% |
| Expense ratio | 37.1% | 40.8% | 41.1% |
| Commission ratio | 19.2% | 19.7% | 23.3% |
| Administration ratio | 17.9% | 21.1% | 17.8% |
| Combined ratio | 103.8% | 102.8% | 197.3% |
| Insurance margin | (3.8%) | (1.4%) | (91.8%) |

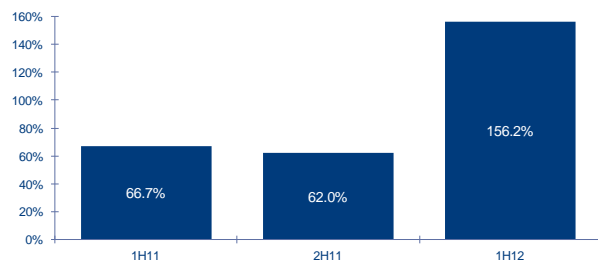
¹Insurance ratios include divisional expense overlays and are not a true representation of the underlying consolidated business (Thailand).

INSURANCE RATIOS

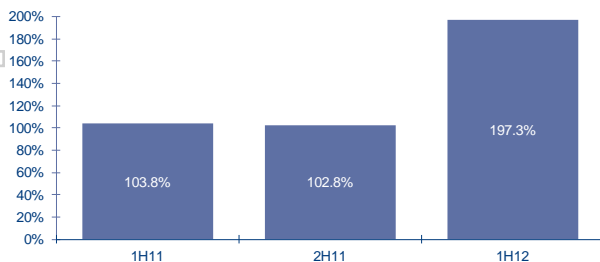
EXPENSE RATIO



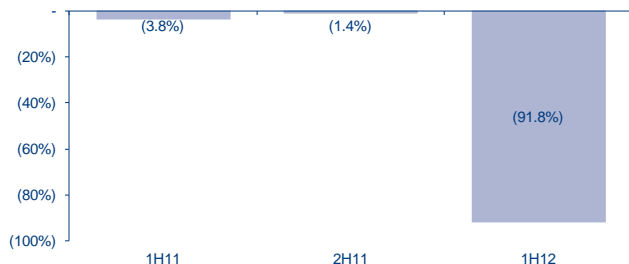
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



EXECUTIVE SUMMARY

Expansion of the Group's Asian footprint is on track. During 1H12, IAG announced:

- The agreed purchase of a 20% strategic interest in a general insurer in China, Bohai Property Insurance Company Ltd, which is expected to complete in 2H12, subject to regulatory approval; and
- A proposal by IAG's 49%-owned Malaysian associate, AmG Insurance Berhad (AmG), to acquire Kurnia Insurans (Malaysia) Berhad, which remains subject to regulatory and other approvals. If approved and completed, this transaction would create the largest motor insurer in Malaysia.

Once complete, these transactions will represent further progress towards realising the Group's goal of Asia representing 10% of total GWP (on a proportional basis) by 2016.

In 1H12 the Asia division recorded a net insurance loss of \$67m owing to Thailand's worst flooding in many decades. This single event contributed a net claims cost of \$65m to the result, and was one of the largest insured catastrophe events around the world in calendar 2011, causing in excess of \$10bn in insured losses.

Excluding the claim cost from the Thai floods, as well as regional support and development costs of \$10m (1H11: \$9m), the division reported a \$7m profit in 1H12 (1H11: \$7m). The main factors behind this performance were:

- A solid underlying performance from the business in Thailand;
- Higher reinsurance costs, including reinstatement expenditure as a result of the Thai floods;
- A strong result from AmG in Malaysia; and
- Start-up losses from the Indian operations, in line with expectations.

The Asia division currently participates in a regional annualised GWP pool of in excess of \$435m. IAG's share of that pool in 1H12 was nearly \$150m (or \$300m on an annualised basis), representing 3.4% of the Group's GWP on a proportional basis. This percentage has declined slightly in the latest half owing to the combination of:

- The adverse impact of a strong Australian dollar on Asian GWP; and
- GWP growth in excess of 10% in IAG's Australian and New Zealand businesses.

THAILAND

OPERATIONS

IAG's controlled operations in Thailand comprise:

- Safety Insurance (Safety) – a predominantly motor insurer; and
- NZI Thailand (NZI) – a commercial insurer.

Following local regulatory approval, Safety and NZI have commenced a merger process which will see them operate under a single licence (Safety Insurance) but retain the use of both brands. This is being effected through the renewal of policies from 1 July 2011 and will take approximately 18 months to complete.

**Asia on track to represent
10% of Group GWP by 2016**

**Thai business is the sole
consolidated operation in
Asia**

9. ASIA

OPERATING PERFORMANCE

The Thai business reported GWP growth of over 5% in local currency terms, despite the adverse affect on the economy from the prolonged flood crisis. Reported 1H12 GWP of \$94m declined by 3% owing to the strength of the Australian dollar.

Strong GWP growth in the early months of 1H12 was countered by the impact of the widespread flooding which commenced in August and extended through most of the balance of the reporting period. In particular, the floods caused a suspension in car production and major disruption to the supply of key motor parts. In 1H12, motor accounted for a slightly increased proportion of GWP, at 74%.

The 1H12 result was dominated by the net claims impact of \$65m from the extreme flood event which extended over several months.

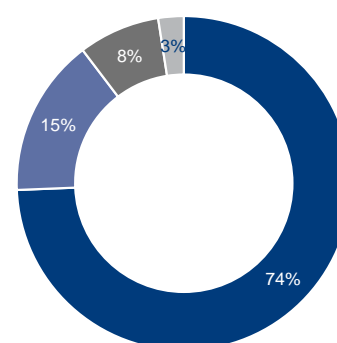
An underlying insurance margin of 4.5% was similar to the result achieved in 1H11, a period also impacted by flood events, but of a much smaller scale. The 1H12 result included reinsurance reinstatement premiums following the floods, as well as higher investment income on technical reserves which included unrealised gains on interest-bearing securities.

The underlying loss ratio of 65.7% was reasonably consistent with 1H11 (64.4%) and reflected prudent underwriting on compulsory motor business. The underlying expense ratio of 34.3% was an increase over 1H11 (31.7%), and was driven by higher commission, a direct reflection of the increased proportion of business derived from motor, a class which carries a higher commission rate than other short tail categories.

In addition to extensive facultative coverage purchased in the open market by Safety, the Thai business acquires surplus and excess of loss protections from IAG Re. The Group remains satisfied with the Thai business' flood exposure and risk profile.

Solid underlying performance from the Thai business

THAILAND – 1H12 GWP BY CLASS



- Motor
- Other Short tail
- Liability
- Short tail Commercial

THAILAND FINANCIAL PERFORMANCE

| | 1H11 | | 2H11 | | 1H12 | |
|---|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|
| | Bm ¹ | A\$m ² | Bm ¹ | A\$m ² | Bm ¹ | A\$m ² |
| Gross written premium | 2,813 | 97 | 2,893 | 92 | 2,960 | 94 |
| Net earned premium | 2,182 | 78 | 2,200 | 71 | 2,220 | 73 |
| Net claims expense | (1,406) | (52) | (1,352) | (44) | (1,459) | (114) |
| Commission & underwriting expenses | (691) | (25) | (723) | (23) | (762) | (26) |
| Investment income on technical reserves | 24 | - | 33 | 1 | 101 | 4 |
| Insurance profit/(loss) | 109 | 1 | 158 | 5 | 100 | (63) |
| Allocated support & development costs | | (4) | | (6) | | (4) |
| Reported insurance (loss) | | (3) | | (1) | | (67) |
| Insurance Ratios | | | | | | |
| Loss ratio | 64.4% | | 61.5% | | 65.7% | |
| Expense ratio | 31.7% | | 32.9% | | 34.3% | |
| Combined ratio | 96.1% | | 94.4% | | 100.0% | |
| Insurance margin | 5.0% | | 7.2% | | 4.5% | |

¹ Excludes captive reinsurance result and allocated regional support and development costs.

² Includes captive reinsurance result and allocated regional support and development costs.

MARKET ENVIRONMENT, REGULATION AND REFORM

The long term outlook for Thailand remains positive. Domestic demand continues to be strong on the back of improved consumer and business confidence following the decisive election result in July 2011. While modest GDP growth in calendar 2011 was tempered by the severity of the floods and the knock-on impact on global supply chains, the economy is expected to grow by around 4% in 2012, boosted by post-flood reconstruction.

The Thailand general insurance market grew moderately in calendar 2011. In 2012, insurance premiums are anticipated to exhibit stronger growth, in the wake of significant flood-related claims. International reinsurers have generally affirmed their continued acceptance of business in flood-hit areas, albeit with greater conditions and a call for the authorities to take more aggressive action in guarding against future floods.

MALAYSIA

OPERATIONS

IAG owns a 49% interest in AmG Insurance (AmG), the general insurance arm of AmBank Group, which controls Malaysia's fifth largest bank branch network. This joint venture was established in 2006. AmG is the third largest motor insurer in Malaysia.

In December 2011 AmG submitted for local regulatory review a proposal to enter into an agreement to acquire Kurnia Insurans (Malaysia) Berhad (Kurnia). If approved and completed, this transaction would result in the merged AmG and Kurnia business attaining the leading position in the Malaysian motor insurance market, in line with AmG's stated strategy.

OPERATING PERFORMANCE

AmG Insurance delivered a strong performance in 1H12, as the business continues to benefit from IAG's successful capability transfer programme.

1H12 GWP declined by 3% compared to 1H11 in local currency terms, stemming from continued weakness in vehicle sales and the resultant impact on the hire purchase channel.

AmG's insurance margin in 1H12 increased to 19.4% (1H11: 14.3%), driven by a significantly improved loss ratio of 63.0% (1H11: 70.3%). This follows the strategic refresh of significant claim processes which have resulted in reduced claim leakage.

Investment income on technical reserves declined compared to 1H11, owing to unrealised losses on the bond portfolio on the back of rising interest rates.

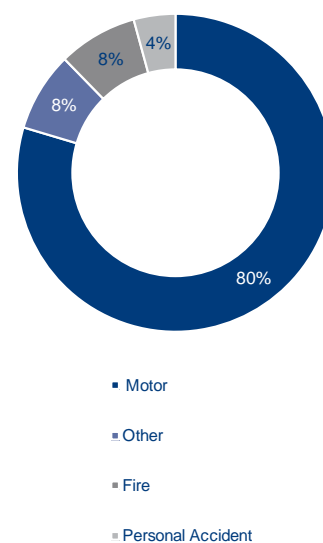
Before allocated regional support and development costs, AmG reported an improved contribution of \$7m in 1H12 (1H11: \$6m). Allocated regional support and development costs of \$3m were lower than 1H11, reflecting their allocation across a broader base in 1H12. As a result, AmG's net contribution increased to \$4m (1H11: \$1m).

Post-floods increase in premium rates expected

Proposed acquisition of Kurnia would make AmG the largest motor insurer in Malaysia

AmG has performed strongly

AMG – 1H12 GWP BY CLASS



9. ASIA

AMG FINANCIAL PERFORMANCE

| | 1H11 ¹ | | 2H11 ¹ | | 1H12 ¹ | |
|---|-------------------|------------|-------------------|------------|-------------------|-----------|
| | RMm | A\$m | RMm | A\$m | RMm | A\$m |
| Gross written premium | 327 | 110 | 320 | 102 | 317 | 99 |
| Net earned premium | 273 | | 282 | | 284 | |
| Net claims expense | (192) | | (197) | | (179) | |
| Commission & underwriting expenses | (65) | | (71) | | (70) | |
| Investment income on technical reserves | 23 | | 20 | | 20 | |
| Insurance profit | 39 | | 34 | | 55 | |
| Net profit after tax | 38 | | 31 | | 47 | |
| Net profit after tax - IAG's share (49%) | 19 | 6 | 15 | 5 | 23 | 7 |
| Allocated support & development costs | | (5) | | (3) | | (3) |
| Reported share of profit from associate | | 1 | | 2 | | 4 |
| Insurance Ratios | | | | | | |
| Loss ratio | 70.3% | | 69.9% | | 63.0% | |
| Expense ratio | 23.8% | | 25.2% | | 24.6% | |
| Combined ratio | 94.1% | | 95.1% | | 87.6% | |
| Insurance margin | 14.3% | | 12.1% | | 19.4% | |

¹ Figures represent AmG's results for the periods ended 30 June and 31 December (AmG reports on a 31 March year end basis).

MARKET ENVIRONMENT, REGULATION AND REFORM

The Malaysian economy grew by 4.6% in calendar 2011 and is projected to grow by nearly 4% in 2012. Forecast growth is underpinned by strong domestic demand and a positive reform environment, with some offset from the Malaysian economy's export exposure to a soft global growth outlook.

Malaysia's general insurance market grew by approximately 7% in calendar 2011, compared to the same period in 2010. With moderate GDP growth, a strengthening regulatory environment and significant development in insurance penetration still to come, Malaysia continues to offer good long term growth prospects. The market is currently going through a period of consolidation, of which the proposed Kurnia transaction is part.

The Malaysian government continues to work with stakeholders to implement significant reforms to the Third Party Bodily Injury (TPBI) scheme. Owing to the complexity of the issues involved, satisfactory resolution may take some time. AmG's TPBI book remained stable in 1H12, with an improving trend in finalised costs. This line of business, which is mandatory in the Malaysian motor insurance market, represented 5% of AmG's GWP 1H12.

Positive economic and industry growth outlook

INDIA

OPERATIONS

IAG owns a 26% interest in SBI General Insurance Company (SBI General), a joint venture with State Bank of India (SBI), India's largest bank. The interest was acquired in November 2009 for \$126m (5.4bn Indian rupees).

SBI General commenced limited underwriting from April 2010, with an expanded launch in March 2011 following significant investment in the development of tailored IT systems.

The business is building a portfolio with a presence in the corporate, retail

Start-up losses in line with expectations

9. ASIA

and SME markets across India, with the majority in the retail segment distributed through SBI's bancassurance channel. SBI General currently has 20 dedicated branches across the major cities of India.

IAG has an option to increase its shareholding to 49%, subject to a change in the Indian foreign direct investment limit. It remains the Group's expectation that, at its current ownership level, no further capital will be required before 2014.

IAG appointees occupy a number of key positions, including Deputy CEO. IAG also has two Board positions.

OPERATING PERFORMANCE

SBI General currently has over 600 employees, compared to 420 at the end of FY11. A small number of IAG personnel remain based in India, but this figure has fallen following the completion of the near term capability transfer programmes and the business moving towards establishment.

For 1H12, SBI General generated GWP of \$24m (IAG's 26% share being approximately \$7m), surpassing FY11 GWP of \$20m. In local currency terms, GWP growth of over 600% was recorded compared to 1H11, with translated numbers reduced by a significant relative strengthening of the Australian dollar. GWP growth was led by home business written through the bancassurance channel, with a penetration rate of over 90% on related mortgage business.

India contributed a loss of \$5m to the divisional result, comprising operational losses of \$2m, which were in line with expectations, and allocated regional support and development costs of \$3m. Allocation of support and development costs to this business commenced in 2H11.

SBI GENERAL FINANCIAL PERFORMANCE

| | 1H11 | | 2H11 | | 1H12 | |
|---|-------|------|-------|------|-------|------|
| | INRm | A\$m | INRm | A\$m | INRm | A\$m |
| Gross written premium | 171 | 4 | 716 | 16 | 1,218 | 24 |
| Net (loss) after tax | (109) | | (549) | | (450) | |
| Net (loss) after tax - IAG's share (26%) | (28) | | (143) | (4) | (117) | (2) |
| Allocated support & development costs | | | | (2) | | (3) |
| Reported share of (loss) from associate | | | | (6) | | (5) |

¹Figures represent SBI General's results for the periods ended 30 June and 31 December (SBI General reports on a 31 March year end basis).

²Prior to the expanded launch of SBI General in 2H11, the costs associated with establishment of the business were allocated across the other Asian operating business. From 2H11 those costs are allocated exclusively to SBI General.

MARKET ENVIRONMENT, REGULATION AND REFORM

The general insurance market in India grew by 24% in the nine months to 31 December 2011. In this period, the private sector achieved a slightly higher growth rate of 27%, with a collective market share of 42%. The Indian general insurance market is forecast to grow by 15-20% per annum over the next decade.

The regulatory framework continues to incorporate reforms conducive for growth in the insurance industry. This includes the Insurance Regulatory and Development Authority's (IRDA) recently announced abolition of the Third Party Motor Insurance Pool and its planned replacement with a new scheme that will enable insurers to decide on the risks underwritten.

Rapid GWP growth, but from a small base

Indian market exhibiting strong growth

9. ASIA

CHINA

China remains an attractive general insurance market underpinned by strong forecast growth. GDP is forecast to grow by 9% per annum over the next five years, while the general insurance market is expected to increase by 10-15% per annum over the next decade. The industry has recorded strong growth of nearly 19% in calendar 2011.

On 15 August 2011, IAG announced it had agreed to acquire a 20% strategic interest in Bohai Property Insurance Company Ltd (Bohai Insurance), for a sum of approximately \$100m. This transaction remains subject to regulatory approval and is expected to complete in 2H12.

Bohai Insurance was established in 2005. It has a predominantly motor insurance focus and current annualised GWP in excess of \$200m. Bohai is headquartered in Tianjin and has a strong emphasis on the surrounding pan-Bohai region which accounts for around 30% of China's GDP and an equivalent portion of China's annual GWP pool, which currently stands at approximately \$70bn.

Under the terms of the agreement, IAG will have Board and senior management representation. Preparation for capability transfer in the areas of actuarial reserving, motor risk selection, commercial pricing framework development, strategy development, claims management and reinsurance has already commenced.

Early in 2H12 the Group completed the sale of the non-core China Automobile Association (CAA) business. Sale proceeds were in line with book value.

REGIONAL SUPPORT AND DEVELOPMENT COSTS

As IAG broadens its operational footprint in Asia, the division incurs regional support and development costs which are borne within its reported results. These costs cover a wide range of activities, including the divisional level management, on-the-ground capability transfer teams and the costs of developing opportunities in new and existing markets.

The regional support and development costs are largely self-funded within the division and, for reporting purposes, are allocated between the consolidated businesses and shares of associates. Total regional support and development costs for 1H12 increased to \$10m (1H11: \$9m) owing to additional expenditure incurred in respect of the investment in China and the pursuit of new opportunities in Indonesia and Vietnam, but were slightly lower than 2H11.

REGIONAL SUPPORT & DEVELOPMENT COSTS - ALLOCATION

| | 1H11 | 2H11 | 1H12 |
|---|----------|-----------|-----------|
| | A\$m | A\$m | A\$m |
| Thailand (Safety Insurance / NZI) | 4 | 6 | 4 |
| Malaysia (AmG Insurance) | 5 | 3 | 3 |
| India (SBI General) ¹ | - | 2 | 3 |
| Total regional support & development costs | 9 | 11 | 10 |
| | % | % | % |
| Total costs / share of regional GWP | 5.9% | 7.5% | 6.8% |

¹Prior to the expanded launch of SBI General in 2H11, the costs associated with establishment of the business were allocated across the other Asian operating businesses. From 2H11 those costs are allocated exclusively to SBI General.

Strategic investment in Bohai Insurance expected to complete in 2H12

Increased business development costs in respect of new opportunities

FY12 OUTLOOK

It is anticipated that the underlying performance in the Thai and Malaysian businesses will remain stable over the balance of FY12. Sound organic growth is expected in both markets.

The full implementation of systems at SBI General, supporting the business' expansion, remains a key area of focus for 2H12. Very strong GWP growth is anticipated, off a small base, along with further modest operating losses as the business continues to progress through its start-up phase.

A further priority will be the capability transfer programmes with respect to Bohai Insurance in China. This will build the foundation necessary for Bohai's expansion into a significant business over the next few years. This investment remains subject to regulatory approval, and is expected to complete in 2H12.

IAG has advised that AmG has submitted for local regulatory review a proposal to enter into an agreement to acquire Kurnia Insurans (Malaysia) Berhad (Kurnia). If approved and completed, IAG expects this transaction to conclude towards the end of 2H12, at which point the merger of AmG and Kurnia will commence, creating the leading motor insurer in Malaysia.

While the division's immediate growth strategy is based on the selected markets of Thailand, Malaysia, India and China, additional markets and opportunities therein have begun to be assessed. These are being progressed in FY12, with Indonesia and Vietnam identified as specific markets of interest.

Proposed transactions in China and Malaysia to further advance Asian footprint

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10. REINSURANCE

REINSURANCE STRATEGY

IG's reinsurance programme is an important part of the Group's overall approach to capital management. The Group has a philosophy of limiting its main catastrophe retention to a maximum of 4% of NEP. Its current retentions are below this level.

The Group determines its reinsurance requirements for Australia and New Zealand on a modified whole of portfolio basis (where whole of portfolio is the sum of all correlated risk). The limits purchased reflect a 1-in-250 year return period.

The Group's Australian-based captive reinsurer captures 100% of the reinsurance spend of the Australian businesses. Whilst the bulk of the facultative reinsurance underwritten is passed straight through to the external market, the Group captures counter-party and regulatory exposures within a single entity.

IG's international business units continue to place some reinsurance directly with the external market. However, the Group's international captive reinsurers underwrite close to 100% of New Zealand treaty business and a substantial amount from the UK and Asia.

MARKET ENVIRONMENT

Following the unprecedented sequence of major natural peril events in Australia and New Zealand since FY10, which resulted in significant claim costs to insurers and reinsurers alike, there has been a marked hardening of reinsurance rates applicable to the region. Reinsurance capacity, however, has remained resilient and continues to be available to the Group in all risk categories, including earthquake in New Zealand.

The Group renewed its catastrophe programme on 1 January 2012, and experienced rate increases in line with those embodied in its insurance margin guidance at the beginning of FY12. The Group has also indicated an FY12 reinsurance expense of between \$700m and \$720m, which represents a significant increase over the \$620m expense reported in FY11.

CATASTROPHE COVER

The Group's catastrophe reinsurance cover provided considerable protection during calendar 2011, with remaining aggregate cover exhausted by the Thai flood event in 1H12. As a result of prior programme erosion, the Victorian storms event in December 2011 (\$190m) was fully retained by the Group.

IG's catastrophe reinsurance protection runs to a calendar year and operates on an excess of loss basis. It covers all territories in which IG operates. At renewal on 1 January 2012 the integrated programme comprised the following key components:

- A main catastrophe cover for losses up to \$4.2bn, including one prepaid reinstatement. The Group retains the first \$250m of each loss, with the lower layer of the main programme (\$250m excess of \$250m) fixed for a period of three years. Two reinstatements of this layer have been secured;
- An upper layer, from \$4.2bn to \$4.7bn, providing earthquake cover in respect of Australia and New Zealand for a period of three years at agreed prices;
- A buydown arrangement that reduces the maximum cost of a first event to \$150m;

Reinsurance is a key part of IG's overall approach to capital management

Hardening reinsurance market conditions, following increased natural peril activity

The Group's catastrophe protection has performed to expectations

10. REINSURANCE

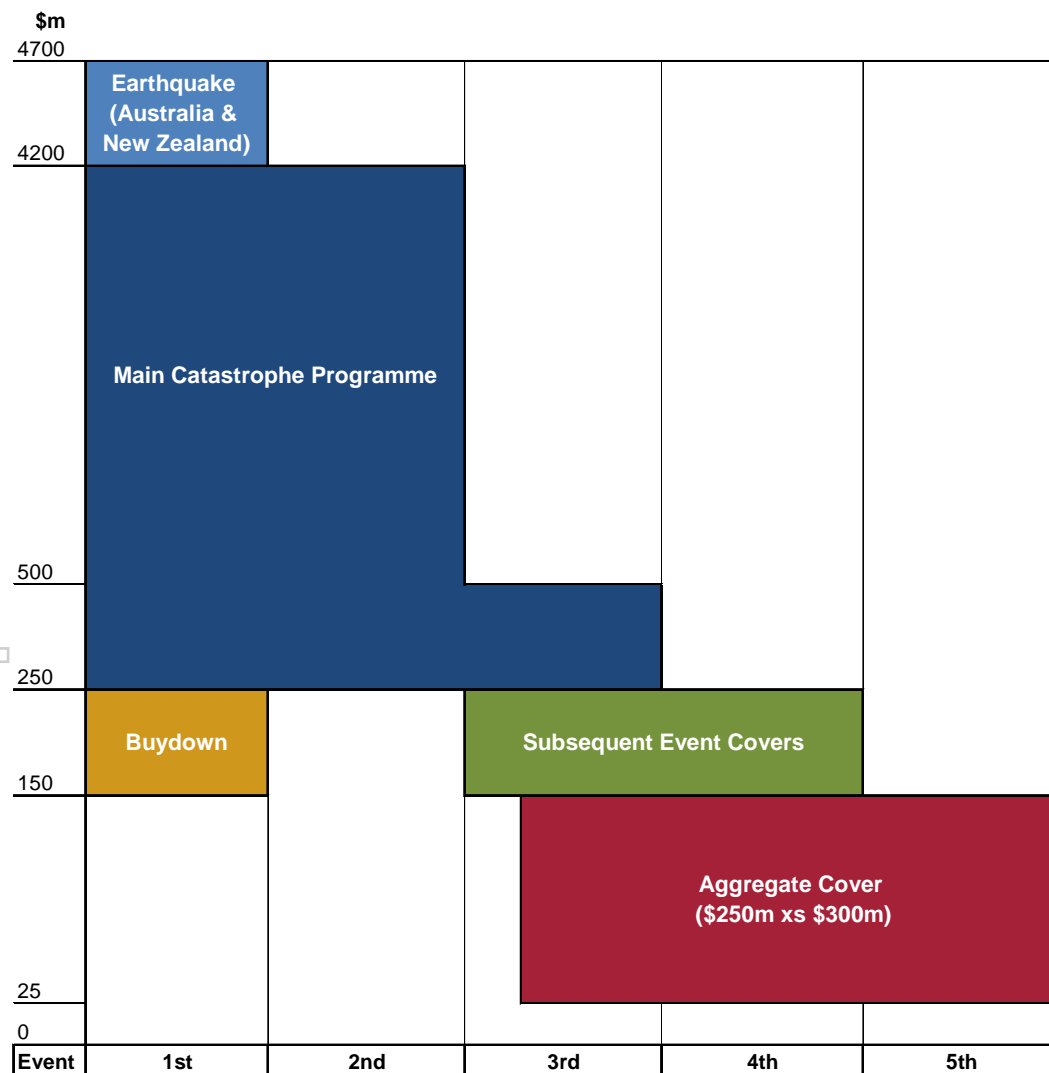
- Subsequent event cover providing protection above \$150m; and
- An aggregate sideways cover of \$250m excess of \$300m, with qualifying events capped at a maximum contribution of \$125m excess of \$25m, per event.

The combination of covers in place at 1 January 2012 results in maximum first event retentions of \$150m for Australia, \$130m for New Zealand and \$50m for the UK.

IAG's reinsurance protections have been extended in 2012 to provide cover for the flood products now being offered by Australia Direct and CGU across Australia.

The Group has a customised event definition in its catastrophe reinsurance contract wording which ensures that covers provide appropriate protection to the Group, both in terms of geographical exposure and event duration.

2012 CATASTROPHE REINSURANCE COVER – AS AT 1 JANUARY 2012



10. REINSURANCE

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances which protect the Group in all territories in which it underwrites.

The casualty reinsurances were renewed at 30 June 2011 with minimal price increases. Unlimited cover is purchased on statutory classes where available and for other lines cover was placed up to the original underwriting limits for each class. Cover is also secured for potential accumulations within a class or between classes of business.

Casualty reinsurances renewed with minimal price increases

COUNTER-PARTY RISK

The counter-party credit profiles for the key reinsurances of the Group, as at 1 January 2012, are:

- Over 90% (2011: 83%) of limits placed with 'A+' or better rated entities for the property catastrophe programme; and
- 100% of limits placed with 'A+' or better rated entities for the casualty programme.

Stronger counter-party risk profile than 2011

11. INVESTMENTS

INVESTMENT PHILOSOPHY

The Group's investment philosophy is:

- To manage the assets backing technical reserves and shareholders' funds separately, subject to regulatory or other structural constraints;
- To invest the assets backing technical reserves, wherever possible, in a combination of government and high quality fixed interest securities with interest rate sensitivities that match the underlying insurance liabilities;
- To invest the Group's shareholders' funds to maximise return, consistent with the Group's risk appetite and flexibility requirements;
- To invest Group assets such that the contribution of investment risk to IAG's earnings volatility should not dominate the contribution from insurance risk;
- To generate cost-effective and consistent added value to technical reserves and shareholders' funds in accordance with agreed benchmarks and within strict risk tolerance parameters; and
- To maintain highly liquid portfolios, invested in accordance with Group policies.

INVESTMENT STRATEGIES

As at 31 December 2011, the Group's overall investment allocation remained conservatively positioned with over 89% of total investments in fixed interest and cash. Technical reserves remained almost entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was 65%.

Within shareholders' funds, the Group exited the vast majority of its international equities exposure in December 2011. Related funds have been reallocated to Australian equities and fixed income. The Group's equity exposure has been consolidated to domestic equities for reasons of capital and operational efficiency.

It remains the Group's intent to move closer towards its long term 50% target for growth assets within shareholders' funds by investing in a blend of :

- Traditional equities; and
- Alternative investments that display a lower volatility than equities and a higher return than fixed income.

Collectively, the Group's allocation to alternative assets was 17% of shareholders' funds at 31 December 2011, similar to the weighting at 30 June 2011, with the majority of this allocation invested in global convertible bonds. Total growth assets stood at 35% of shareholders' funds, as at 31 December 2011 (30 June 2011: 41%).

In technical reserves, no material deviation from the current strategy is planned, given the attractive returns on high-grade credit currently still available.

GROUP INVESTMENT ASSETS

The Group's investments totalled \$12.7bn as at 31 December 2011, excluding investments held in joint ventures and associates, with over 70% represented by the technical reserves portfolio. Total investments at 30 June 2011 were \$11.9bn.

Technical reserves invested in duration-matched fixed interest securities

Distinct investment strategies for technical reserves and shareholders' funds

Total investments of \$12.7bn

11. INVESTMENTS

INVESTMENT ASSETS

| | 1H11 A\$bn | 2H11 A\$bn | 1H12 A\$bn |
|--|---------------|---------------|---------------|
| Technical reserves | 8.1 | 8.3 | 9.0 |
| Shareholders' funds | 3.7 | 3.6 | 3.7 |
| Total investment assets | 11.8 | 11.9 | 12.7 |
| Other funds managed on behalf of third parties | 0.5 | 0.5 | 0.5 |

ASSET ALLOCATION

89% of total investments in fixed interest and cash

Since 30 June 2011, the most significant change in asset allocation has been the reduced proportion of growth assets (equities and alternatives) within shareholders' funds. Over the course of 1H12, growth assets have fallen from 41% of shareholders' funds to under 35%. This movement reflects:

- The underperformance of equities during the period;
- The decision to exit the Group's exposure to international equities close to the end of 1H12;
- Receipt of the proceeds from the New Zealand subordinated bond issue in December 2011; and

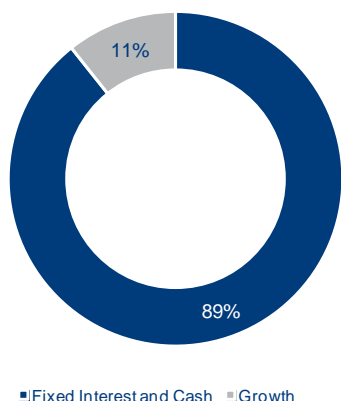
Allowance for future anticipated investment outlays, including those in respect of Bohai in China and AMI in New Zealand, via an increased allocation to short term fixed interest and cash.

ASSET ALLOCATION

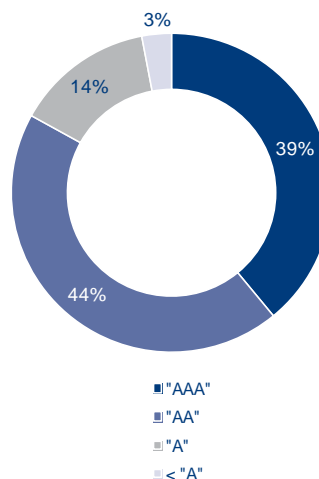
| | 1H11 % | 2H11 % | 1H12 % |
|---|--------------|--------------|--------------|
| Shareholders' funds | % | % | % |
| Australian equities | 19.8 | 18.1 | 17.2 |
| International equities | 5.0 | 5.4 | 0.4 |
| Alternatives | 15.4 | 17.6 | 17.2 |
| Fixed interest and cash | 59.8 | 58.9 | 65.2 |
| Total | 100.0 | 100.0 | 100.0 |
| Technical reserves | % | % | % |
| Australian equities | - | - | - |
| International equities | - | - | - |
| Alternatives | 0.2 | 1.0 | 0.8 |
| Fixed interest and cash | 99.8 | 99.0 | 99.2 |
| Total | 100.0 | 100.0 | 100.0 |
| Total shareholders' funds & technical reserves | % | % | % |
| Australian equities | 6.2 | 5.5 | 5.0 |
| International equities | 1.6 | 1.6 | 0.1 |
| Alternatives | 5.0 | 6.0 | 5.6 |
| Fixed interest and cash | 87.2 | 86.9 | 89.3 |
| Total | 100.0 | 100.0 | 100.0 |

11. INVESTMENTS

GROUP ASSET ALLOCATION – 31 DECEMBER 2011



CREDIT QUALITY – 31 DECEMBER 2011



CREDIT QUALITY OF ASSETS

The credit quality of the Group's investment book remains high, with 83% of the fixed interest and cash portfolio rated in the 'AA' category or better. All credit assets are performing and meeting interest and principal repayment obligations.

High credit quality maintained

SENSITIVITY ANALYSIS

As at 31 December 2011, the sensitivity of the Group's net profit before tax to investment market movements was as set out in the table below. Interest rate sensitivities are measured against the Australian Commonwealth Government bond yield curve.

SENSITIVITY OF NET PROFIT BEFORE TAX – AS AT 31 DECEMBER 2011

| | Change in Assumption | |
|---|----------------------|-------------|
| | +1% A\$m | -1% A\$m |
| Equity market values: | | |
| Australian equities | 6 | (6) |
| International equities ¹ | 4 | (4) |
| Interest rates: | | |
| Assets backing technical provisions | (280) | 300 |
| Assets backing shareholders' funds ¹ | (22) | 23 |
| Total investment returns | (302) | 323 |

¹ Includes indirect sensitivities relating to alternative asset classes.

INVESTMENT PERFORMANCE

A summary of the investment income and the investment returns generated on the technical reserves and shareholders' funds portfolios is set out in the following table. The percentage returns are net of transaction costs, management fees and expenses, but before income tax.

1H12 investment returns reflect rallying bond and weaker equity markets

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11. INVESTMENTS

INVESTMENT RETURNS (INCLUDING DERIVATIVES)¹

| | 1H11 | | 2H11 | | 1H12 | |
|--------------------------------|------------|----------------|------------|----------------|------------|----------------|
| | A\$m | % ² | A\$m | % ² | A\$m | % ² |
| Technical reserves | 149 | 1.8 | 340 | 4.1 | 475 | 5.3 |
| Shareholders' funds | 147 | 4.0 | 66 | 1.8 | (30) | (0.8) |
| Total investment income | 296 | 2.5 | 406 | 3.4 | 445 | 3.5 |

¹Returns are accounting yields, being investment income based on average exchange rates divided by closing funds under management.

²Half year returns have not been annualised.

Investment returns on technical reserves were higher during 1H12 than previous periods, reflecting the strong rally in the bond market. Reported income included unrealised capital gains associated with the period end discount rate adjustment, of \$320m (1H11: negative \$104m), and an \$80m reduction from a widening of credit spreads.

Allowing for credit spreads and the movement in the discount rate adjustment prompted by lower interest rates, the Group continued to generate over 100bps of return above the risk free (3-year government bond) rate, across the entire technical reserves portfolio. The average duration of the portfolio continues to be aligned with the Group's claims liability, at approximately three years.

Investment returns on shareholders' funds were lower compared to previous periods reflecting weaker equity markets, influenced by the ongoing European debt crisis. The broader Australian index declined by 12% over the six months to 31 December 2011.

12. BALANCE SHEET & CAPITAL

BALANCE SHEET

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---|---------------|---------------|---------------|
| Assets | | | |
| Cash and cash equivalents | 413 | 509 | 466 |
| Investments | 11,810 | 11,893 | 12,704 |
| Investments in joint ventures and associates | 299 | 284 | 273 |
| Premium receivable | 1,876 | 2,081 | 2,069 |
| Trade and other receivables | 586 | 560 | 655 |
| Reinsurance and other recoveries on outstanding claims ¹ | 2,264 | 4,010 | 4,209 |
| Deferred acquisition costs | 634 | 683 | 718 |
| Deferred reinsurance expense | 423 | 371 | 675 |
| Intangible assets | 211 | 225 | 240 |
| Goodwill | 1,642 | 1,644 | 1,647 |
| Other assets | 621 | 769 | 836 |
| Total assets | 20,779 | 23,029 | 24,492 |
| Liabilities | | | |
| Outstanding claims ¹ | 8,847 | 10,889 | 11,826 |
| Unearned premium | 4,117 | 4,355 | 4,477 |
| Interest bearing liabilities | 1,380 | 1,377 | 1,627 |
| Trade and other payables | 834 | 826 | 777 |
| Other liabilities | 943 | 1,002 | 1,272 |
| Total liabilities | 16,121 | 18,449 | 19,979 |
| Net assets | 4,658 | 4,580 | 4,513 |
| Equity | | | |
| Equity attributable to holders of ordinary shares | 4,511 | 4,417 | 4,367 |
| Non-controlling interests | 147 | 163 | 146 |
| Total equity | 4,658 | 4,580 | 4,513 |

¹Reinsurance and other recoveries on outstanding claims¹ and 'outstanding claims' have been reclassified as at 30 June 2011 to better reflect the risk margin on reinsurance recoveries in the United Kingdom.

The total assets of the Group as at 31 December 2011 were \$24,492m compared to \$23,029m at 30 June 2011. This increase largely reflects:

- A higher level of investments held, as a result of:
 - Strong operational cash flow in the period;
 - Capital gains on fixed interest holdings; and
 - Proceeds from the NZ\$325m subordinated bond issue in December 2011.
- Increased reinsurance recoveries, following an approximately \$400m strengthening of claim reserves in respect of the large peril events experienced in FY11, notably the Christchurch earthquakes; and
- A higher deferred reinsurance expense, following completion of the calendar 2012 catastrophe renewal.

12. BALANCE SHEET & CAPITAL

The other assets category represents the aggregate of current and deferred tax assets, prepayments, property and equipment, deferred expenditure and other assets.

The total liabilities of the Group as at 31 December 2011 were \$19,979m, compared to \$18,449m at 30 June 2011. The movement includes:

- Increased outstanding claims liabilities, reflecting the combination of:
 - Strengthening of claim reserves in respect of the large peril events experienced in FY11 (with a corresponding increase in reinsurance recoveries);
 - High natural peril activity towards the end of 1H12;
 - A significant discount rate adjustment in the face of lower interest rates; and
 - General business growth;
- Higher interest bearing liabilities, following completion of the NZ\$325m subordinated bond issue in December 2011; and
- Increased reinsurance premium payable, following completion of the calendar 2012 catastrophe renewal.

The other liabilities category represents the aggregate of current and deferred tax liabilities, employee provisions, unitholders' funds held by external holders of units in IAG-controlled trusts, reinsurance premiums payable and lease and other provisions.

IAG shareholders' equity (excluding non-controlling interests) decreased from \$4,417m at 30 June 2011 to \$4,367m at 31 December 2011. The decrease is largely attributable to defined benefit scheme and foreign currency translation reserve movements.

GOODWILL & INTANGIBLES

Total goodwill and intangibles at 31 December 2011 stood at \$1,887m, up from \$1,869m at 30 June 2011, and comprises \$1,647m of goodwill (FY11: \$1,644m) and \$240m of other intangible assets (FY11: \$225m).

GOODWILL & INTANGIBLES – BY DIVISION

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---|--------------|--------------|--------------|
| Australia Direct | 599 | 601 | 595 |
| Australia Intermediated | 603 | 623 | 645 |
| New Zealand | 274 | 280 | 279 |
| United Kingdom | 328 | 320 | 322 |
| Asia | 49 | 45 | 46 |
| Total goodwill & intangibles | 1,853 | 1,869 | 1,887 |

CAPITAL

CAPITAL ADEQUACY

The Group retains a target minimum capital requirement (MCR) multiple of 1.45 to 1.50 as a long term benchmark.

Robust capital position

12. BALANCE SHEET & CAPITAL

The Group's capital position is robust, with an MCR multiple of 1.69 at 31 December 2011. This compares to 1.58 at 30 June 2011, with the improvement largely explained by the NZ\$325m subordinated bond issue which was completed in December 2011.

There has been negligible impact in the period from the unwind of higher balance sheet values associated with the substantial natural peril activity incurred in FY11, with reserve strengthening countering claim payments. It is the Group's expectation that this unwind effect will gather pace as claims are settled and reinsurance recoveries received. This process is expected to extend over a period of approximately two years.

Reflecting the above factors, the Group's regulatory capital has increased to \$4,191m, and its MCR reduced marginally to \$2,481m.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|--|--------------|--------------|--------------|
| Tier 1 capital | | | |
| Paid-up ordinary shares | 5,353 | 5,353 | 5,353 |
| Non-controlling interests | 147 | 163 | 146 |
| Treasury shares | (35) | (32) | (38) |
| Hybrid equity ¹ | 496 | 451 | 454 |
| Reserves | (91) | (84) | (100) |
| Retained earnings | (692) | (795) | (828) |
| Excess technical provisions (net of tax) | 454 | 381 | 379 |
| Less: deductions ² | (2,326) | (2,430) | (2,341) |
| Total Tier 1 capital | 3,306 | 3,007 | 3,025 |
| Tier 2 capital | | | |
| Hybrid equity in excess of Tier 1 limit ¹ | 404 | 449 | 446 |
| Subordinated debt ³ | 465 | 461 | 705 |
| Other | 9 | 16 | 15 |
| Total Tier 2 capital | 878 | 926 | 1,166 |
| Capital base | 4,184 | 3,933 | 4,191 |
| Minimum Capital Requirement (MCR): | | | |
| Insurance risk | 1,315 | 1,410 | 1,464 |
| Investment risk | 850 | 911 | 867 |
| Catastrophe concentration risk | 150 | 175 | 150 |
| Total MCR | 2,315 | 2,496 | 2,481 |
| MCR multiple | 1.81 | 1.58 | 1.69 |

¹Hybrid equity includes Reset Exchangeable Securities and Reset Preference Shares. These securities are classified under APRA's prudential standards as 'Innovative Tier 1' and are eligible to be included in Tier 1 capital up to a limit of 15% of net Tier 1 capital. The aggregate amount of these securities in excess of this limit is included in Tier 2 capital.

²Includes goodwill and intangibles, net deferred tax assets, capitalised software and expected dividends.

³The amount of subordinated debt eligible to be included in Tier 2 capital excludes capitalised transaction costs and discount on issue, and for foreign currency denominated debt, the liability is translated at the current exchange rate excluding any related cross-currency swaps.

12. BALANCE SHEET & CAPITAL

INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at \$1,627m at 31 December 2011, compared to \$1,377m at 30 June 2011.

In July 2011 the Group announced amended terms for its £157m subordinated exchangeable loan note issue, with effect from October 2011. Following the amendments, the date at which the notes may be redeemed or exchanged into IAG ordinary shares has been extended to December 2012, and the notes will pay a reduced coupon of LIBOR +1.875% (previously LIBOR +2.5%). The notes will continue to qualify as lower Tier 2 capital under current regulatory requirements.

In December 2011 the Group raised NZ\$325m from the issue of unsecured subordinated bonds in the New Zealand retail market. The bond issue forms part of the Group's ongoing capital management programme, with net proceeds used for general corporate purposes and to provide IAG with added flexibility in managing its future refinancing requirements.

The bonds have a term to maturity of 25 years and a coupon of 7.50%. They are callable at IAG's discretion on the fifth anniversary of their issue and on each interest payment date thereafter.

The Group is considering its options, including potentially issuing a new hybrid instrument, to refinance its \$350m Reset Preference Share issue which has a reset date in June 2012.

NZ\$325m retail bond issue completed in December 2011

INTEREST BEARING LIABILITIES

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---|--------------|--------------|--------------|
| Subordinated debt | 468 | 463 | 715 |
| Reset Preference Shares | 350 | 350 | 350 |
| Reset Exchangeable Securities | 550 | 550 | 550 |
| Capitalised transaction costs / other | 12 | 14 | 12 |
| Total interest bearing liabilities | 1,380 | 1,377 | 1,627 |

GROUP DEBT & HYBRID CAPITAL

| | Principal amount | | Yield (net of swaps) | Rate | Call, reset or maturity date | S&P rating |
|---|------------------|------------|----------------------------|----------|------------------------------------|---------------|
| | m | A\$m | % | | | |
| Subordinated exchangeable term notes ¹ | £157 | 239 | 3.13% | Variable | Dec-12 | 'A' |
| Subordinated fixed rate notes | NZ\$100 | 76 | 9.11% | Fixed | Nov-12 | 'A+' |
| Subordinated fixed rate notes | £100 | 153 | 5.63% | Fixed | Dec-16 | 'A-' |
| Subordinated fixed rate bonds | NZ\$325 | 247 | 7.50% | Fixed | Dec-16 | 'A-' |
| Total Debt | | 715 | | | | |
| Reset Preference Shares (IAGPA) ² | A\$350 | 350 | 5.63% | Fixed | Jun-12 | 'A-' |
| Reset Exchangeable Securities (IANG) ³ | A\$550 | 550 | 6.28% | Variable | Dec-19 | 'A-' |

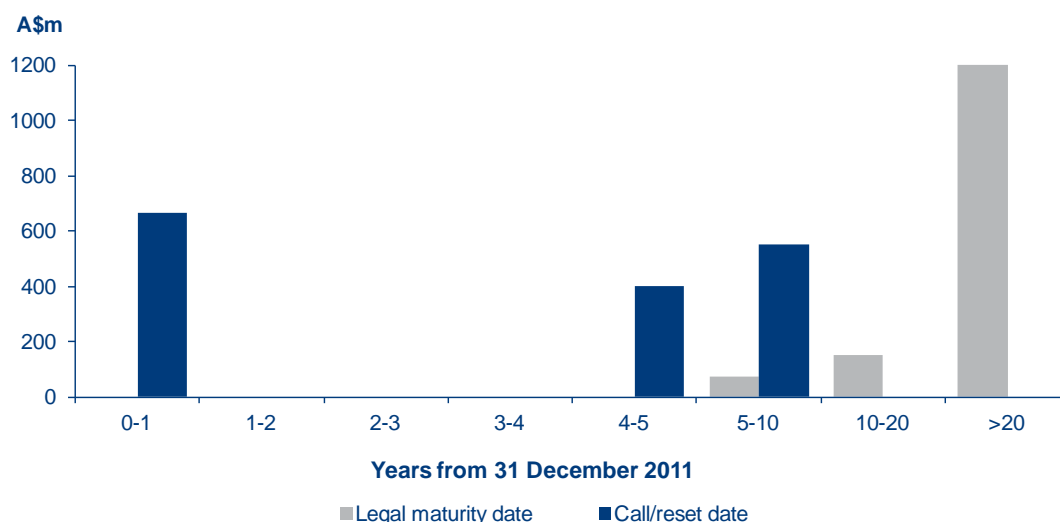
¹ Stated yield based on margin of LIBOR +1.875%, as amended in October 2011.

² Dividend yield on the Reset Preference Shares is a cash yield, excluding attached franking credits. The principal excludes capitalised transaction costs.

³ The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

12. BALANCE SHEET & CAPITAL

GROUP DEBT MATURITY PROFILE



CAPITAL MIX

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. It is IAG's intention to have a capital mix in the following ranges over the longer term:

- Ordinary equity (net of goodwill and intangibles) 60-70%; and
- Debt and hybrids 30-40%.

At 31 December 2011, the Group's capital mix was towards the upper end of the targeted range, with debt and hybrids representing 38.3% of total tangible capitalisation.

Capital mix in targeted range

CAPITAL MIX

| | 1H11 A\$m | 2H11 A\$m | 1H12 A\$m |
|---------------------------------------|--------------|--------------|--------------|
| Shareholder equity | 4,658 | 4,580 | 4,513 |
| Intangibles and goodwill | (1,853) | (1,869) | (1,887) |
| Tangible shareholder equity | 2,805 | 2,711 | 2,626 |
| Interest bearing liabilities | 1,380 | 1,377 | 1,627 |
| Total tangible capitalisation | 4,185 | 4,088 | 4,253 |
| Debt to total tangible capitalisation | 33.0% | 33.7% | 38.3% |

CREDIT RATINGS

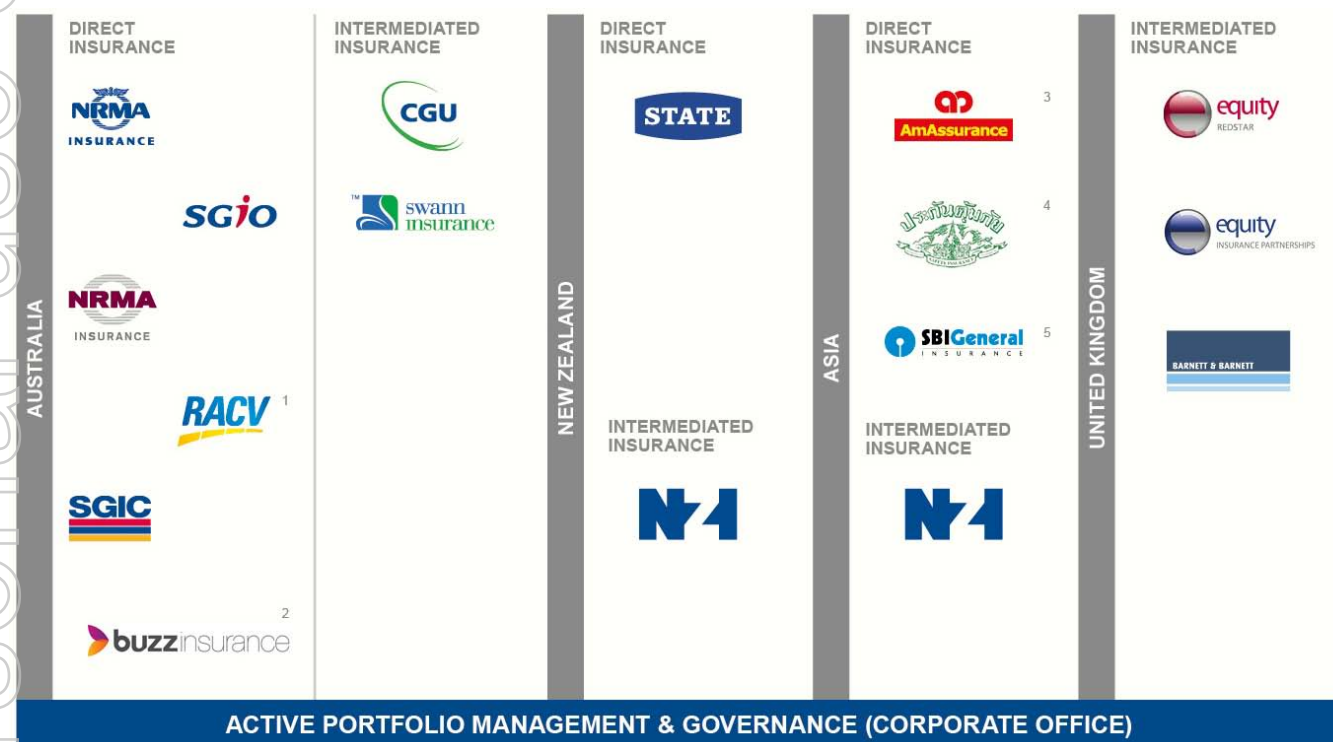
On 17 February 2012, Standard & Poor's (S&P) affirmed its 'very strong' 'AA-' ratings on IAG's core operating companies and its 'A+' rating on IAG (the ultimate parent entity). The outlook on all entities remains stable.

APPENDIX A – GROUP OPERATING MODEL

GROUP OPERATING MODEL

The Group has a portfolio of end-to-end general insurance businesses aligned around customers, brands and markets. In this devolved model, accountability and responsibility are close to the end customer. This provides the operating businesses with control over the levers needed to execute strategies and manage performance, but within an overall Group framework. The operating model is summarised below.

PORTFOLIO OF INSURANCE BRANDS AND MARKETS



¹ IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV Limited. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.

² RACV has a 30% interest in Buzz Insurance.

³ IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmG Insurance Berhad, which trades under the AmAssurance brand.

⁴ IAG holds 98.6% voting rights in Safety Insurance, based in Thailand.

⁵ IAG has 26% ownership of SBI General Insurance Company, a joint venture with State Bank of India.

APPENDIX B – IAG SNAPSHOT

AUSTRALIA DIRECT

Direct insurance products, which include personal insurance as well as business insurance packages targeted at sole operators and smaller businesses, are sold primarily under the NRMA Insurance brand in NSW, ACT, Queensland and Tasmania. SGIO is the primary brand in Western Australia, and SGIC in South Australia. In Victoria, home, motor and other insurance products are distributed through RACV. Products are distributed through branches, call centres, the internet and representatives. A nationwide online brand, Buzz Insurance, focuses on car and home insurance products.

AUSTRALIA INTERMEDIATED

Intermediated insurance products are sold primarily under the CGU Insurance and Swann Insurance brands through a network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. CGU is a leading provider of business and farm insurance, as well as personal insurance, across Australia. It also provides workers' compensation services in every state and territory, except South Australia and Queensland.

NEW ZEALAND

The New Zealand business is the leading insurance provider in the country in the direct channel and a leading insurer in the broker/agent channel. Insurance products are provided directly to customers under the State brand and indirectly, through insurance brokers and agents, under the NZI brand. The personal lines and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions. IAG has also agreed to acquire the AMI insurance business, which would strengthen its direct personal lines presence in New Zealand. This acquisition remains subject to regulatory approval.

Short tail insurance

- Motor vehicle
- Home and contents
- Niche insurance, such as pleasure craft, veteran and classic car, caravan and travel
- Commercial property
- Commercial motor and fleet motor
- Farm, crop and livestock

Long tail insurance

- Compulsory Third Party (motor injury liability)
- Public and products liability

Short tail insurance

- Commercial property
- Commercial motor and fleet motor
- Construction and engineering
- Farm, crop and livestock
- Marine
- Motor vehicle
- Home and contents
- Niche insurance, such as consumer credit and travel

Long tail insurance

- Public and products liability
- Professional indemnity
- Directors' and officers'
- Workers' compensation

Short tail insurance

- Motor vehicle
- Home and contents
- Commercial property, motor and fleet motor
- Construction and engineering
- Niche insurance, such as pleasure craft, boat, caravan and travel
- Rural and horticultural
- Marine

Long tail insurance

- Personal liability
- Income protection
- Commercial liability

UNITED KINGDOM

In the UK, IAG has a specialist motor underwriting operation, Equity Red Star (ERS). Commencing operations in 1946, ERS is the largest motor syndicate at Lloyd's, providing insurance to business and personal lines customers. IAG's UK interests also include the Equity Insurance Partnerships (EIP) affinity business and the specialist commercial broking operation, Independent Commercial Brokers (ICB).

ASIA

The Group has interests in three insurance businesses in Asia:

- A controlling economic interest in the merged business of Safety Insurance and NZI in Thailand;
- A 49% share of AmG Insurance Berhad, a general insurance joint venture in Malaysia; and
- A 26% interest in SBI General Insurance Company, a general insurance joint venture in India which commenced business in 2010.

The Group has also announced the acquisition of a 20% interest in Bohai Property Insurance Company Ltd, a Tianjin-based general insurer. Regulatory approval for the transaction is expected in 2H12.

APPENDIX C – KEY RELATIONSHIPS

NRMA MOTORING & SERVICES



NRMA Motoring & Services was established in 1920 and is a mutual organisation with over 2.4 million members in NSW and the ACT. Until August 2000 it owned the NRMA Insurance business which now forms the bulk of IAG's Australia Direct division. Under the terms of the demutualisation agreements, from that date NRMA Motoring & Services and IAG co-own the NRMA brand, with the respective parties having the following exclusive rights to its use:

- NRMA Motoring & Services - roadside assistance and other motoring services (except smash repairs), motoring products, transportation and travel.
- IAG (NRMA Insurance) - insurance and financial services and any other good or service not specifically reserved for NRMA Motoring & Services.

In addition, both parties cannot, under any brand, carry out activities engaged in by the other at the point of demutualisation.

IAG continues to provide certain services to NRMA Motoring & Services, notably those in respect of the NRMA branch network which is operated and managed by IAG. The two organisations retain a strong and closely aligned relationship.

NRMA Motoring & Services and its members received IAG shares as consideration for the NRMA Insurance business at demutualisation.

RACV



RACV is a mutual organisation incorporated in 1901. It provides a broad range of services to more than two million members. These services include: insurance; finance; roadside assistance; general mobility, road safety and vehicle design advocacy; and leisure, which includes club and resorts, touring and travel products and services.

IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV Limited established in 1999. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is owned 70% by IAG and 30% by RACV.

If one of IMA's shareholders were to experience a change of control, the other has a pre-emptive right to acquire that shareholder's interest in IMA at market value. The duration of the arrangements governing RACV's distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value, as would the duration of the arrangements governing IMA's reinsurance of NRMA-branded products in NSW and the ACT.

RACV also has a 30% interest in Buzz Insurance.

APPENDIX C – KEY RELATIONSHIPS

AMBANK GROUP

Established in August 1975, AmBank Group has the fifth largest bank branch network in Malaysia.

The Group provides a wide range of investment banking, commercial banking, retail financing and related financial services, which also include Islamic banking, underwriting of general and life insurance, stock, share and futures broking, investment advisory services as well as asset, property and unit trust management.

IAG has a general insurance joint venture in Malaysia with AmBank, AmG Insurance Berhad (AmG), which was established in 2006. AmBank owns 51% of AmG and IAG 49%. AmG is the third largest motor insurer in Malaysia.



STATE BANK OF INDIA

State Bank of India (SBI) is India's largest and oldest bank, with origins that can be traced back to 1806. It offers a broad range of banking and financial services, and has a footprint which, including associated banks, spans over 160 million customers and 18,000 branches across all states of India.

SBI General Insurance Company (SBI General), a joint venture between SBI and IAG, was established in late 2009. SBI General commenced operations in 2010 and is establishing a presence in the corporate, retail and SME markets across India, with the majority in the retail segment through SBI's bancassurance channel. SBI General has an exclusive corporate agency agreement with SBI for general insurance business.

SBI owns 74% of SBI General and IAG 26%. IAG has an option to increase its shareholding to 49%, subject to a change in the Indian foreign direct investment limit.



LLOYD'S

Lloyd's is based in London and is the world's leading specialist insurance market, conducting business in over 200 countries and territories worldwide. It brings together specialist underwriting expertise and comprises over 50 managing agents and over 80 syndicates.

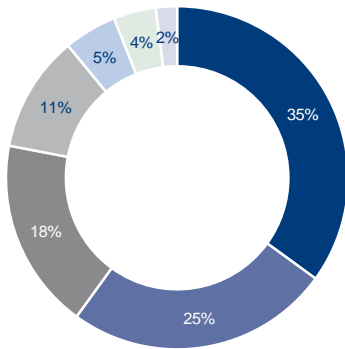
Lloyd's is not an insurance company but a society of members, both corporate and individual, who underwrite in syndicates on whose behalf professional underwriters accept risk. Supporting capital is provided by investment institutions, specialist investors, international insurance companies and individuals. Together, the syndicates underwriting at Lloyd's form one of the world's largest commercial insurers and a leading reinsurer. The Lloyd's underwriting year commences 1 January.

Equity Red Star Motor Syndicate 218 is the largest motor and personal lines syndicate at Lloyd's and represents the most significant part of IAG's UK business. IAG's wholly-owned Lloyd's corporate member, Equity Red Star Limited, currently provides approximately 64.9% of the syndicate's underwriting capacity.



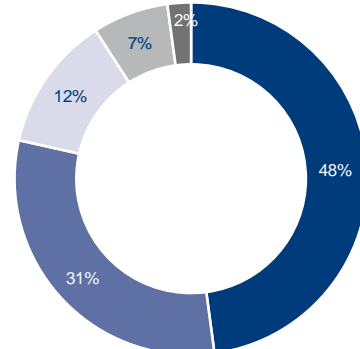
APPENDIX D – GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY PRODUCT – 1H12



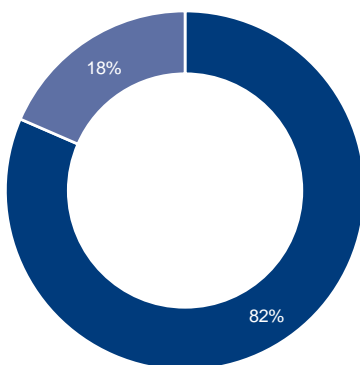
- Motor
- Home
- Short Tail Commercial
- CTP/Motor Liability
- Liability
- Other Short Tail
- Workers' Compensation

IAG GROUP GWP BY BUSINESS – 1H12



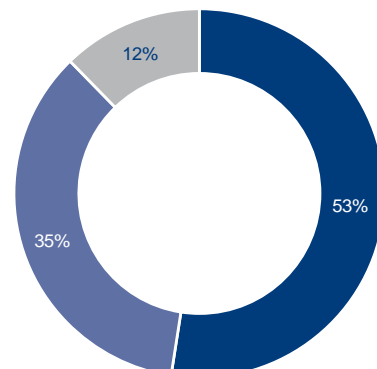
- Australia Direct
- Australia Intermediated
- New Zealand
- United Kingdom
- Asia

IAG GROUP GWP BY TAIL – 1H12



- Short Tail
- Long Tail

IAG GROUP GWP BY CHANNEL – 1H12



- Direct
- Broker/Agent
- Affinity

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APPENDIX E – KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 30 June 2011 is set out below. It does not include announcements of changes in directors' interests, or the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements if further information is required. These are available at <http://www.iag.com.au>.

- 4-JUL-11 IAG AMENDS TERMS OF STERLING SUBORDINATED NOTE ISSUE**
- IAG announced an amendment to the terms of its £157m subordinated exchangeable loan note issue, with effect from October 2011. Following the amendments, the date at which the notes may be redeemed or exchanged into IAG ordinary shares has been extended to December 2012, and the notes will pay a reduced coupon of LIBOR +1.875%. The notes will continue to qualify as lower Tier 2 capital under current regulatory requirements.
- 15-AUG-11 IAG MAKES STRATEGIC INVESTMENT IN A GENERAL INSURER IN CHINA**
- IAG announced it had agreed to acquire a 20% strategic interest in a general insurer in China, Bohai Property Insurance Company Ltd, for a price of RMB687.5m (approximately A\$100m). Completion is expected in early calendar 2012 and remains subject to regulatory approval.
- 25-AUG-11 IAG DELIVERS REVENUE GROWTH AND IMPROVES INSURANCE MARGIN AND DIVIDEND IN FY11**
- IAG announced an insurance profit of \$660m for the 12 months to 30 June 2011, representing an insurance margin of 9.1%. Net profit after tax increased to \$250m. Gross written premium was \$8.1bn, representing underlying growth of 4.8% after adjusting for foreign exchange movements. IAG's Annual Report and Annual Review were also released to the market.
- 6-SEP-11 NOTICE OF ANNUAL GENERAL MEETING**
- IAG's Notice of Annual General Meeting was released to the market.
- 24-OCT-11 AMENDMENT OF £157M SUBORDINATED NOTE ISSUE**
- IAG confirmed that the amendments to its £157m subordinated note issue, as foreshadowed on 4 July 2011, took effect on 21 October 2011.
- 26-OCT-11 ANNUAL GENERAL MEETING**
- IAG advised shareholders at the company's annual general meeting that it was on track to deliver its results guidance for the 2012 financial year.
- 26-OCT-11 IAG CONSIDERS NEW ZEALAND SUBORDINATED BOND ISSUE**
- IAG advised that it was considering making an offer of NZ\$150m of unsecured subordinated bonds to the New Zealand public, with the option to accept oversubscriptions.
- 7-NOV-11 IAG LAUNCHES NEW ZEALAND SUBORDINATED BOND ISSUE**
- IAG announced an offer of up to NZ\$150m of unsecured subordinated bonds to the New Zealand public, with the option to accept oversubscriptions of up to a further NZ\$100m. The bonds will have a final maturity of 15 December 2036 and will be callable at IAG's discretion.
- 10-NOV-11 UPDATE ON WIDESPREAD FLOODING IN THAILAND**
- IAG advised that its Thailand business had received approximately 1,500 claims arising from the severe flooding in that country, and that the Group's preliminary estimate was a net claim cost of around \$50m, after allowance for reinsurance recoveries.

APPENDIX E – KEY ASX RELEASES

15-NOV-11 IAG INCREASES SIZE OF NEW ZEALAND SUBORDINATED BOND OFFER AND SETS MINIMUM INTEREST RATE

IAG announced that, following strong indicated demand, it had increased the size of its unsecured subordinated bond offer to the New Zealand public, to NZ\$325m. The minimum interest rate until 15 December 2016 was set at 7.50% per annum.

15-DEC-11 IAG SETS INTEREST RATE ON NEW ZEALAND SUBORDINATED BOND ISSUE

IAG announced that the interest rate for its issue of NZ\$325m of unsecured subordinated bonds had been set at 7.50% per annum. The offer closed on 12 December 2011.

16-DEC-11 IAG STRENGTHENS MARKET POSITION IN NEW ZEALAND THROUGH ACQUISITION OF AMI

IAG announced it had entered into an agreement to purchase the AMI insurance business for NZ\$380m (approximately A\$288m), enhancing its position as New Zealand's leading general insurer. The acquisition excludes all liabilities relating to the earthquakes which have affected the Canterbury region and will be funded from internal resources. The transaction is subject to regulatory approvals.

20-DEC-11 IAG'S MALAYSIAN ASSOCIATE, AMG, SUBMITS PROPOSAL TO ACQUIRE KURNIA

IAG advised that its 49%-owned Malaysian associate, AmG Insurance Berhad (AmG), had submitted for local regulatory review a proposal to enter into an agreement to acquire Kurnia Insurans (Malaysia) Berhad (Kurnia), the principal general insurance business of Kurnia Asia Berhad. If approved and completed, the transaction would result in the merged AmG and Kurnia business attaining the leading position in the Malaysian motor insurance market.

4-JAN-12 IAG FINALISES 2012 CATASTROPHE REINSURANCE COVER

IAG announced that it had finalised its catastrophe reinsurance programme for the period commencing 1 January 2012. The programme encompasses protection of up to \$4.7bn. IAG also advised that it had received approximately 20,000 claims following the hailstorms and related severe weather which occurred in Victoria around Christmas Day.

10-JAN-12 IAG PROVIDES UPDATE ON VICTORIAN STORMS

IAG confirmed that it had received approximately 24,000 claims following the hailstorms and related severe weather which occurred in Victoria around Christmas Day. The Group's expectation is that this event will result in a net claims cost of around \$180m to \$200m, taking the anticipated overall net natural perils claim cost for the opening half of the 2012 financial year to approximately \$400m to \$420m.

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APPENDIX F – GLOSSARY

The following is a glossary of the terms used in this report, including those commonly used in the insurance industry.

| | |
|---|--|
| Affinity | A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold. |
| APRA | Australian Prudential Regulation Authority. |
| ASX | Australian Securities Exchange Limited. |
| Cash earnings | IAG defines cash earnings as net profit after tax attributable to IAG shareholders, plus amortisation and excluding any unusual items. This definition is used for the purposes of the Group's dividend policy. It is non-IFRS financial information that has not been audited or reviewed. |
| Cash ROE | IAG defines cash ROE as reported ROE adjusted for amortisation and unusual items. |
| Combined ratio | Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio. |
| Credit spread | The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields. |
| CTP | Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia. |
| Deferred acquisition costs (DAC) | Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts. |
| Discount rate | In accordance with accounting standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate. |
| Divisional | Divisional is the same as segment in the audited financial statements. |
| DRP | Dividend Reinvestment Plan. This plan permits shareholders to receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants. |
| Expense ratio | The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis. |
| Fire services levy (FSL) | FSL is a tax on insurers to assist government funding for fire services. FSL is an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying FSL, usually in arrears. The amount paid by the insurer does not depend on the amounts collected from those insured in relation to the levy. FSL is imposed in the states of NSW and Victoria, in Australia. |

APPENDIX F – GLOSSARY

| | |
|--------------------------------------|---|
| Gross earned premium | Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern. |
| Gross written premium (GWP) | The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured. |
| Group | Insurance Australia Group Limited (IAG) and its subsidiaries. |
| IFRS | International Financial Reporting Standards. |
| Immunised ratio | An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities. |
| Insurance margin | The ratio of insurance profit to net earned premium. |
| Insurance profit | Underwriting result plus investment income on assets backing technical reserves. |
| Liability adequacy test (LAT) | Accounting standards require an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future cash flows relating to future claims arising from the unearned premium, net of reinsurance and deferred acquisition costs. If the unearned premium liability is considered deficient then the entire deficiency is recognised in the income statement, firstly through the write down of deferred acquisition costs and with any remaining amount recognised in the balance sheet as an unexpired risk liability. |
| Long tail | Classes of insurance (such as CTP and workers' compensation) with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs. |
| Loss ratio | The ratio of net claims expense to net earned premium. |
| MCR | Minimum Capital Requirement as defined by APRA. |
| MER | Maximum Event Retention, representing the maximum cost which could be incurred in the event of a further major catastrophe event, after allowing for reinsurance cover. |
| Net claims expense | Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements. |
| Net earned premium (NEP) | Net earned premium is gross earned premium less reinsurance expense. |
| Probability of adequacy (PoA) | The estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. It is also known as the probability of sufficiency (PoS). APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is greater than a 75% level of sufficiency. |
| Recoveries | The amount of claims recovered from reinsurers, third parties or salvage. |

APPENDIX F – GLOSSARY

Reset Exchangeable Securities (RES)

Reset Exchangeable Securities (RES) are quoted as IANG on ASX and issued by IAG Finance (New Zealand) Limited. The issuer is a wholly owned subsidiary of IAG.

Reset Preference Shares (RPS)

Reset Preference Shares are quoted as IAGPA on ASX and issued by IAG.

Risk free rate

The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.

Risks in force

Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.

Shareholders' funds

The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.

Short tail

Classes of insurance (such as motor, home and small-to-medium enterprise (SME) commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.

Technical reserves

The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.

Underlying margin

IAG defines underlying margin as the reported insurance margin adjusted for:

- Net natural peril claim costs less related allowances;
- Reserve releases in excess of 1% of NEP;
- Credit spread movements; and
- Any other material isolated impacts of note.

The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.

Underwriting

The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.

Underwriting expenses

Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.

Underwriting profit/(loss)

Net earned premium less net claims expense, commission expenses and underwriting expenses.

Unearned premium

Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.

WACC

Weighted average cost of capital.