21 February 2013

INVESTOR REPORT HY13



DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited:

- ASX code for Ordinary Shares: IAG (Shares on issue, 31 December 2012: 2,079,034,021)
- ASX code for Reset Exchangeable Securities: IANG (Listed January 2005)
- ASX code for Convertible Preference Shares: IAGPC (Listed May 2012)

London Stock Exchange:

LSE code for Fixed Rate Subordinated Notes due 2026: 70QG (£142.4m outstanding at 31 December 2012)

NZX Limited:

NZDX code for Unsecured Subordinated Bonds due 2036: IAGFA (NZ\$325m outstanding at 31 December 2012)

KEY DATES

Interim dividend – ordinary shares

Ex-dividend date	28 February 2013
 Record date 	6 March 2013
Payment date	3 April 2013
Payment date for IANG and IAGFA quarterly distributions	15 March 2013
Payment date for IAGPC dividend	1 May 2013
Payment date for IANG and IAGFA quarterly distributions	17 June 2013
Announcement of full year results to 30 June 2013	22 August 2013

Final dividend - ordinary shares

Ex-dividend date	5 September 2013*
 Record date 	11 September 2013*
Payment date	9 October 2013*
Payment date for IANG and IAGFA quarterly distributions	16 September 2013
Annual General Meeting	30 October 2013
Payment date for IAGPC dividend	1 November 2013
Payment date for IANG and IAGFA quarterly distributions	16 December 2013
Announcement of half year results to 31 December 2013	18 February 2014*

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

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NOTE: THROUGHOUT THIS REPORT THE UK BUSINESS HAS BEEN TREATED AS A 'DISCONTINUED OPERATION' FOR DISCLOSURE PURPOSES. COMPARATIVE FIGURES FOR 1H12 AND 2H12 HAVE BEEN ADJUSTED ACCORDINGLY.

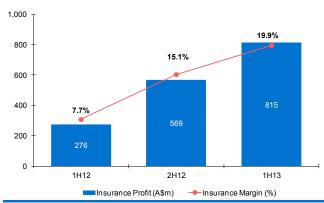
1H13 GROUP RESULTS

KEY RESULTS	1H12 A \$m	2H12 A\$m		1H13 vs 1H12 Movement
Gross written premium	4,045	4,450	4,593	+13.5%
Net earned premium	3,581	3,765	4,095	+14.4%
Insurance profit	276	569	815	+195%
Net profit after tax	144	63	461	+220%
Cash NPAT	155	428	684	+341%
Insurance margin	7.7%	15.1%	19.9%	+1220bps
Cash ROE	7.0%	19.7%	30.7%	+2370bps
Dividend (cents per share)	5.0	12.0	11.0	+120%
MCR (X)	1.69	1.74	1.80	+11bps

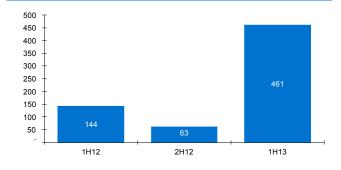
GWP GROWTH

5,000 4,000 3,000 10.4% 10.4% 4,045 4,450 4,593 1,000 1H12 2H12 1H13 GWP (A\$m) GWP Growth (%)

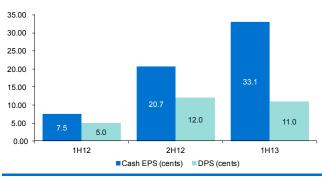
INSURANCE PROFIT & MARGIN



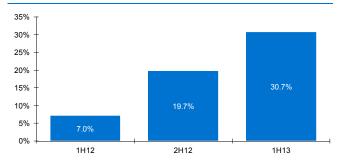
NET PROFIT AFTER TAX (A\$M)



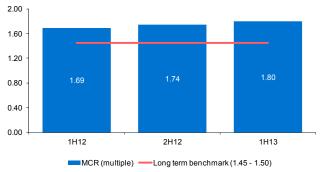
CASH EPS & DPS



CASH ROE



MINIMUM CAPITAL RATIO



GROUP HIGHLIGHTS

- GWP growth of 13.5%, to \$4.6bn (9.5% ex-AMI)
- Underlying business performance has remained strong underlying margin of 12.1%
- Reported margin of 19.9% boosted by favourable natural perils experience (c.\$180m below allowance) and credit spread benefit (\$90m in 1H13)
- Strong performance from Australia Direct slightly lower underlying margin reflecting pressure on NSW CTP from increased claim frequency and lower investment yields
- Australia Intermediated (CGU) firmly on track to deliver double digit underlying margin (1H13: 10.7%)
- Sound performance from New Zealand, with AMI integration progressing to plan
- Asia represents 5.8% of Group GWP (on a proportional basis) following completion of Kurnia acquisition, and on track to record small profit in FY13
- Divestment of UK operations announced in December 2012
- Increase in fully franked interim dividend to 11 cents per share (cps) (1H12: 5cps)
- Strong capital position MCR multiple of 1.80, comfortably placed against LAGIC benchmarks
- FY13 guidance raised to GWP growth of 9.5-11.5% and an insurance margin of 12.5-14.5%, on ex-UK basis and to reflect 1H13 credit spread benefit

1H13 OVERVIEW

Insurance Australia Group Limited (IAG) continues to perform strongly at an underlying business level. The Group's reported results have also benefited from benign natural peril conditions and a favourable credit spread impact.

On an ongoing operations basis (excluding the UK business, which has been treated as a discontinued operation), key features of IAG's results for the six months ended 31 December 2012 are:

- Gross written premium (GWP) growth of 13.5%, to nearly \$4.6bn;
- A materially higher reported insurance margin of 19.9%; and
- An improved underlying margin of 12.1%.

The increase in GWP reflects strong growth in Australia, New Zealand and Asia, sourced from rate increases, improved volumes and the acquisition of AMI in New Zealand, which was completed in April 2012. Excluding AMI, GWP grew by 9.5%.

Aside from ongoing strength in the underlying performance of the business, the very strong reported insurance margin of 19.9% incorporates:

- Benign natural peril activity, resulting in net claim costs of \$133m which are nearly \$180m below the related allowance and over \$260m lower than the equivalent cost in 1H12;
- A favourable \$170m turnaround in credit spread impact, compared to 1H12, with a \$90m benefit from the narrowing of spreads since 30 June 2012; and
- Prior period reserve releases of \$90m, equivalent to 2.2% of net earned premium (NEP).

Significantly higher investment income on shareholders' funds, of \$201m, was driven by much-improved equity market conditions, compared to 1H12 (loss of \$30m).

Net profit after tax increased by over 200% to \$461m, despite inclusion of a loss of \$182m in respect of the discontinued UK operations. A further UK-related loss of around \$80m will be recognised in 2H13, representing the required recycling of a foreign currency translation reserve upon sale completion.

Strong underlying performance, amplified by favourable natural peril and investment market effects

Reported ROE in 1H13 was 20.7%, whereas cash ROE increased to 30.7% (1H12: 7.0%), well in excess of the Group's through-the-cycle target.

An interim fully franked dividend of 11.0cps has been determined, representing a 120% increase over 1H12 (5cps).

Significant lift in interim dividend

DIVISIONAL HIGHLIGHTS AND DEVELOPMENTS

	1H12				1H13	
	GWP	nsurance ofit/(Loss)	Insurance Margin	GWP	Insurance Profit	Insurance Margin
DIVISIONAL PERFORMANCE	A\$m	A\$m	%	A\$m	A\$m	%
Australia Direct	2,080	230	12.3	2,264	453	21.9
Australia Intermediated	1,330	79	6.7	1,433	301	23.1
New Zealand	538	33	7.3	751	52	8.3
Total Australia and New Zealand	3,948	342	9.8	4,448	806	20.2
Asia	94	(67)	(91.8)	137	6	6.2
Corporate & Other	3	1	n/a	8	3	n/a
Total Group	4,045	276	7.7	4,593	815	19.9

At a divisional level, the result includes:

- A continued strong performance from Australia Direct, but at a slightly lower underlying margin owing to pressures in NSW CTP;
- Further solid improvement from Australia Intermediated (CGU), as it implements its new operating model and moves firmly towards achieving an underlying double digit margin in FY13 (1H13: 10.7%);
- A sound underlying performance from New Zealand, with the integration of AMI tracking to expectations; and
- A much-improved contribution from Asia, after the Thai flood-affected 1H12 outcome, and including the initial input from Kurnia in Malaysia. On a proportional basis, Asia contributed 5.8% of Group GWP.

In December 2012, the Group announced the conclusion of the strategic review of its UK business, resulting in the divestment of all UK operations. The sale of the broking business, Independent Commercial Brokers, was completed later that month, while completion of the sale of the larger Equity Red Star business is expected in 2H13.

UNDERLYING INSURANCE RESULT

The Group has delivered a strong underlying insurance margin of 12.1%, on a continuing business basis. After allowing for an even phasing of the natural peril allowance between halves in FY12 (as has been adopted in FY13), the equivalent underlying margin in 1H12 was 11.7%.

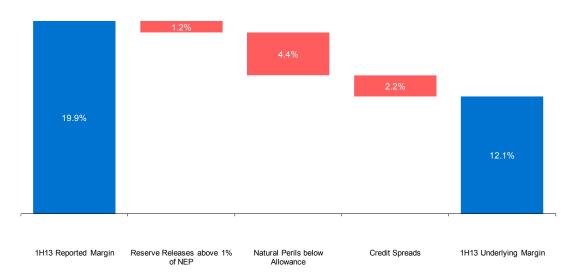
IAG defines its underlying margin as the reported insurance margin adjusted for:

- Net natural peril claim costs less the related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

Increased earnings from all operating divisions

Improved 1H13 underlying performance

GROUP 1H13 INSURANCE MARGIN - REPORTED VS. UNDERLYING



CAPITAL

The Group's capital position remains strong, at 1.80 times the minimum capital requirement (MCR) as at 31 December 2012. Under the LAGIC regime (effective 1 January 2013), the equivalent prescribed capital amount (PCA) multiple at 31 December 2012 is 1.69 (Group benchmark of 1.4 to 1.6), and the Common Equity Tier 1 (CET1) ratio is 1.07 (Group benchmark of 0.9 to 1.1).

The Group's debt to total tangible capitalisation ratio has reduced since 30 June 2012, to 34.9%. This places the Group at the middle 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 2012.

OUTLOOK

The Group continues to expect strong GWP growth and a higher insurance margin in FY13, compared to FY12.

On a continuing business basis, the Group anticipates GWP growth of 9.5-11.5% in FY13. This reflects further premium rate increases across the Australian and New Zealand businesses, as well as a full year's contribution from AMI (FY12: 3 months), and is consistent with the previously held guidance of 9-11%, adjusted for the UK.

The Group anticipates reporting an insurance margin from ongoing operations in the range of 12.5-14.5%. This reflects the strong underlying performance of the Group and is consistent with previously held guidance of 11-13% after allowing for exclusion of the UK and inclusion of the credit spread benefit recognised in 1H13. Underlying assumptions are:

 Net losses from natural perils of \$620m, in line with the full year allowance (ex-UK). This follows significant natural peril-related claims in the opening weeks of calendar 2013 in Australia, estimated to cost the The Group's capital position remains strong

FY13 insurance margin guidance raised to 12.5-14.5%, on an ex-UK basis

Group 120-140m in respect of ex-Tropical Cyclone Oswald and 35m in respect of bushfires in NSW, Tasmania and Victoria;

- Prior period reserve releases equivalent to 1-2% of NEP; and
- No material movement in foreign exchange rates or investment markets during 2H13.

2. STRATEGY

GROUP STRATEGY & PRIORITIES

AMBITION

Our ambition is to be the world's most respected group of general insurance companies

STRATEGY

Deliver superior performance by actively managing our portfolio and driving operational performance and accountability

TARGETS

Long term financial targets

- ROE ≥ 1.5 x WACC
- Top quartile TSR

PRIORITIES

- Accelerate growth in Australia and New Zealand
- Boost Asian footprint to 10% of Group GWP by 2016
- Strategic review of the United Kingdom

GROUP STRATEGY

IAG remains committed to the strategy outlined in 2011, which is to enhance value by managing the Group's portfolio through the insurance cycle in a way that delivers superior performance for shareholders, customers and employees.

The current horizon is focused on driving value from, and maintaining, market leading positions in Australia and New Zealand, while recognising the opportunity for future value creation in the Asian region.

STRATEGIC PRIORITIES

IAG continues to make strong progress against each of its strategic priorities.

Accelerating growth in Australia and New Zealand

IAG remains focused on leveraging the strong brands, customer bases and strategic capabilities in its home markets of Australia and New Zealand. GWP growth in these markets was 12.7% in 1H13, driven by increased rates, some volume gain and a full six-month contribution from the recently acquired AMI business in New Zealand.

Australia Direct continues to generate volume gains driven by the business' ongoing focus on customer insights and pricing capability.

CGU's performance continues to improve, on the back of enhanced underwriting disciplines and implementation of a new operating model, placing it on track to record an underlying double digit insurance margin in FY13.

The **New Zealand** business is experiencing strong GWP growth, centred on rate increases to recover higher reinsurance costs and the inclusion of AMI. The priorities are integration of AMI, leveraging the scale of the business and rebuilding communities after the Canterbury earthquakes.

Boosting the Group's Asian footprint

In **Asia**, the Group is focused on capability transfer to each of its joint ventures in the rapidly growing and developing markets of India, China and Vietnam, as well as its established markets of Thailand and Malaysia.

Further progress against strategic priorities in 1H13

2. STRATEGY

The Group is on track to reach its goal of Asia representing 10% of GWP by 2016, on a proportional basis, and expects the division to deliver an ROE in excess of 15% by FY17, prior to regional support and development costs.

In 1H13, IAG's highly profitable Malaysian joint venture, AmG, completed the acquisition of Kurnia Insurans (Malaysia) Berhad. This transaction has resulted in AmG becoming a clear market leader in Malaysian motor insurance, in line with AmG's stated strategy.

Strategic review of the UK

The Group announced a strategic review of the **UK** business in May 2012, following a substantial improvement in performance. This review concluded in December 2012, with the announcement that the UK operations would be sold. This process is expected to complete in 2H13.

Sale of UK business announced

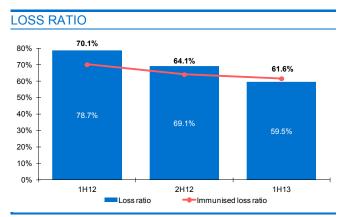
FINANCIAL PERFORMANCE

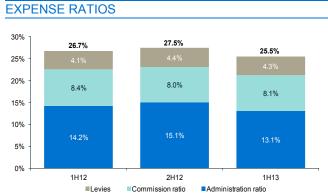
CROUP RECUITS	1H12	2H12	1H13
GROUP RESULTS Gross written premium	4,045	4,450	4,593
Gross earned premium	3,916	4,130	4,494
Reinsurance expense	(335)	(365)	(399)
Net earned premium	3,581	3,765	4,095
Net claims expense	(2,819)	(2,602)	(2,436)
Commission expense	(302)	(302)	(331)
Underwriting expense	(657)	(733)	(714)
Underwriting profit/(loss)	(197)	128	614
Investment income on technical reserves	473	441	201
Insurance profit	276	569	815
Net corporate expense	-	(56)	(21)
Interest	(44)	(53)	(50)
Profit from fee based business	10	5	13
Share of profit/(loss) from associates	(1)	(4)	(2)
Investment income on shareholders' funds	(30)	119	201
Profit before income tax and amortisation	211	580	956
	(29)	(148)	(227)
Profit after income tax (before amortisation)	182	432	729
Non-controlling interests	(23)	(35)	(60)
	159	397	669
Profit after income tax and non-controlling interests (before amortisation) Amortisation and impairment	(8)	(20)	(26)
Profit attributable to IAG shareholders from continuing operations	151	377	643
Net (loss) after tax from discontinued operation	(7)	(314)	(182)
Profit attributable to IAG shareholders	144	63	461
Insurance Ratios (Ongoing Operations)	1H12	2H12	1H13
Loss ratio	78.7%	69.1%	59.5%
Immunised loss ratio	70.1%	64.1%	61.6%
Expense ratio	26.7%	27.5%	25.5%
Commission ratio	8.4%	8.0%	8.1%
Administration ratio	18.3%	19.5%	17.4%
Combined ratio	105.4%	96.6%	85.0%
Immunised combined ratio	96.8%	91.6%	87.1%
Insurance margin	7.7%	15.1%	19.9%
Key Financial Metrics (Total Operations)	1H12	2H12	1H13
Reported ROE (average equity) (% pa)	6.5%	2.9%	20.7%
Cash ROE (average equity) (% pa)	7.0%	19.7%	30.7%
Basic EPS (cents)	6.95	3.06	22.30
Diluted EPS (cents)	6.91	3.04	21.54
Cash EPS (cents)	7.48	20.73	33.08
DPS (cents)	5.00	12.00	11.00
Probability of adequacy	90%	90%	90%
MCR multiple	1.69	1.74	1.80

KEY FOREIGN EXCHANGE RATES APPLIED

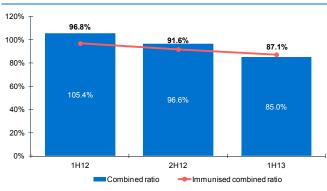
		lance She spot rate)	Income Statement (average rate)		
	1H12	2H12	1H13	1H12	1H13
New Zealand dollar	0.7611	0.7829	0.7929	0.7805	0.7857
British pound	1.5202	1.5340	1.5564	1.5427	1.5336
Thai baht	0.0310	0.0309	0.0315	0.0317	0.0315
Malaysian ringgit	0.3088	0.3080	0.3148	0.3143	0.3164

INSURANCE RATIOS

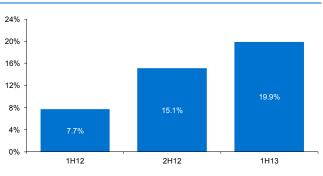




COMBINED RATIO



INSURANCE MARGIN

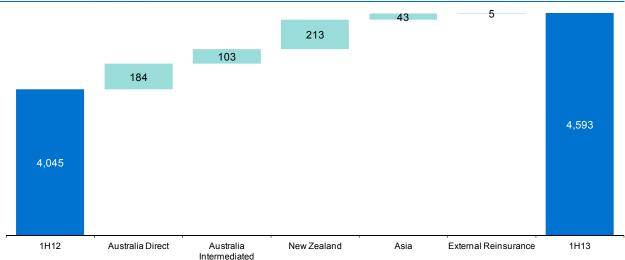


PREMIUMS

GWP for the Group (from continuing operations) was \$4,593m, up 13.5% from \$4,045m in 1H12. Growth was derived largely from rate increases in Australia and New Zealand, implemented to recover higher reinsurance costs, as well as a full six-month contribution from the AMI acquisition in New Zealand (1H12: nil). Excluding AMI, GWP growth was 9.5%.

GWP grew by 13.5% in 1H13 (9.5% ex-AMI)

GWP - 1H13 VS. 1H12 (A\$M)



Comparing 1H13 GWP with 1H12 on a divisional basis:

- Australia Direct grew by 8.8% to \$2,264m, with rate-driven growth in home, to recover higher input costs, augmented by further volume growth, particularly in motor;
- Australia Intermediated (CGU) rose by 7.7% to \$1,433m, with growth sourced primarily from rate increases to recover higher input costs;
- New Zealand reported an increase in GWP of nearly 40%, to \$751m, reflecting the contribution from AMI and further rate increases to recover substantially higher reinsurance costs; and
- In Asia, consolidated GWP (in respect of Thailand) rose by over 46%, reflecting post-flood effects on car production and demand.

INSURANCE MARGIN

After allowing for natural perils, reserve releases and credit spreads, the performance of the collective business has remained strong, with an underlying margin exceeding 12%. This is higher than that achieved in 1H12, on a directly comparable basis. At current underlying performance levels, the Group is delivering a return that meets its long term ROE target.

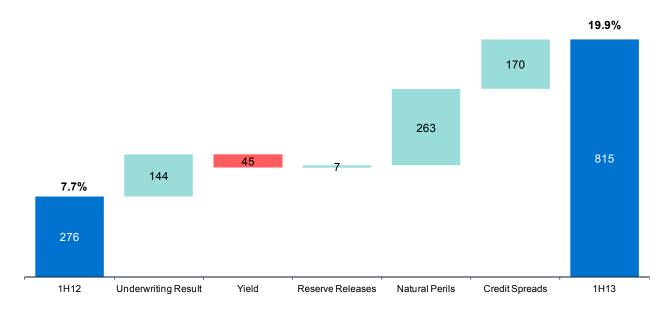
The Group's reported insurance margin from continuing operations was 19.9%, compared to 7.7% in 1H12. This outcome housed the following notable elements:

- A greater than \$140m increase in underwriting result, reflecting ongoing business growth and improvement;
- An offsetting reduction in running yield on technical reserves, of \$45m, reflecting the lower interest rate environment;
- Reserve releases of \$90m (1H12: \$83m), or 2.2% of NEP;
- Net natural peril claim costs of \$133m, which were lower than the 1H13 allowance by nearly \$180m and 1H12 peril experience by over \$260m; and
- A favourable credit spread movement of \$90m, compared to an adverse impact of \$80m in 1H12.

Underlying performance has remained strong...

...with reported insurance margin inflated by favourable peril and credit spread impacts

INSURANCE PROFIT / MARGIN (ONGOING OPERATIONS) - 1H13 VS. 1H12



	1H12	2H12	1H13
GROUP RESULTS	A\$m	A\$m	A\$m
Reserve releases	83	112	90
Natural perils	(396)	(262)	(133)
Natural perils allowance	262	311	310
Credit spreads	(80)	10	90
Reserve releases	2.3%	3.0%	2.2%
Natural perils	(11.1%)	(7.0%)	(3.2%)
Natural perils allowance	7.3%	8.3%	7.6%
Credit spreads	(2.2%)	0.3%	2.2%

On a divisional basis:

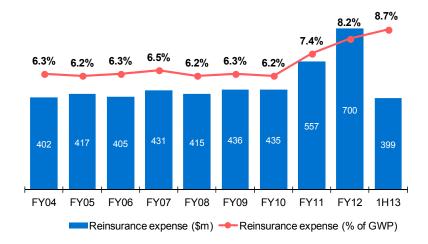
- Australia Direct has reported a near-doubling of insurance profit to \$453m, owing to materially lower net natural peril claim costs and a favourable credit spread impact. Underlying performance has remained strong but at a slightly lower level than FY12 owing to profitability pressures in NSW CTP associated with lower investment yields, pricing constraints and increased claim frequency;
- CGU has reported further improvement in underlying performance which
 places it firmly on track to achieve an underlying double digit margin
 outcome in FY13. This improvement reflects increased rates, as well as
 benefits from the new operating model and past initiatives. The
 significantly higher reported insurance margin of 23.1% includes
 favourable natural peril, reserve release and credit spread impacts;
- The New Zealand business continues to perform well at an underlying level. A higher reported margin of 8.3% (1H12: 7.3%) was after reserve strengthening of \$40m, partially offset by a benign natural peril experience. The AMI integration is proceeding to plan; and
- Asia produced an insurance profit of \$6m, a significant improvement on the Thai flood-impacted loss of \$67m in 1H12. The Thai business continues to perform well.

REINSURANCE EXPENSE

The total reinsurance expense includes the cost of all covers purchased by the Group, including catastrophe, casualty and facultative protection. The 1H13 expense applicable to ongoing operations of \$399m represents a 19% increase over 1H12 (\$335m).

Increased reinsurance expense reflects inclusion of AMI and overall business growth

REINSURANCE EXPENSE



Despite the absence of approximately \$110m of reinstatement costs amortised in 1H12, the 1H13 expense is higher owing to the growth of the overall business, the addition of AMI and the higher rates associated with the 2012 catastrophe renewal.

The 1H13 reinsurance expense represents 8.7% of reported GWP, with the higher ratio compared to FY12 reflecting a full period's expense in respect of the standalone AMI programme (FY12: 3 months). A similar full year ratio is anticipated. The renewal of the Group's catastrophe programme, for calendar 2013, was completed at a cost in line with expectations, while providing increased coverage compared to 2012.

CLAIMS

The 1H13 reported loss ratio of 59.5% is significantly lower than 1H12 (78.7%), and reflects the combined effect of:

- A materially lower net natural peril claim expense than 1H12;
- Slightly higher reserve releases of \$90m, but down from the level reported in 2H12;
- Further improvement in the Group's underlying claim performance; and
- A near-\$400m favourable movement in the risk free discount rate adjustment, compared to 1H12, reflecting an upward shift in the yield curve at 31 December 2012. After allowing for the risk free discount rate adjustment, the immunised loss ratio of 61.6% compares to 70.1% in 1H12.

The lower net claims expense of \$2,436m (1H12: \$2,819m) was also struck after increased business volumes, including a full six-month contribution from AMI.

Reserve Releases

The 1H13 net claims expense includes \$90m of prior period reserve releases, equivalent to 2.2% of NEP. This compares to \$83m (2.3% of NEP) reported in 1H12.

1H13 reserve releases primarily reflect favourable experience in Australian long tail classes, such as professional risks, workers' compensation and CTP.

The net outcome also includes a \$40m strengthening in the New Zealand business, primarily in respect of the June 2011 earthquake event. Related reserving for this event is now up to the NZ\$250m reinsurance attachment point.

	1H12	2H12	1H13
RESERVE RELEASES	A\$m	A\$m	A\$m
Reserve releases	83	112	90
Impact on insurance margin	2.3%	3.0%	2.2%

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. It remains the Group's expectation that reserve releases of 1-2% of NEP will be recorded in FY13 (FY12: 2.7%).

Sharply lower claims ratio heavily influenced by low perils cost

Reserve releases primarily derived from Australian long tail classes, notably in CGU

Natural Perils

The 1H13 net claims expense included \$133m (1H12: \$396m) of losses from natural perils (net of reinsurance), compared to an allowance of \$310m. The net effect of natural perils (after allowance) was a positive impact on the reported insurance margin of 4.4%, a greater than 800bps turnaround compared to 1H12, which saw an equivalent negative margin impact of 3.8%.

	_		
	1H12	2H12	1H13
NATURAL PERILS	A\$m	A\$m	A\$m
Natural peril claim costs	(396)	(262)	(133)
Natural peril allowance	262	311	310
Impact on insurance profit	(134)	49	177
Impact on insurance margin	(3.8%)	1.3%	4.4%

Benign net natural peril experience, \$177m below allowance

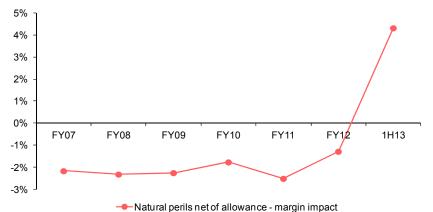
The Group experienced a benign natural peril environment in 1H13, in contrast to 1H12 which contained two major events:

- The extreme floods in Thailand; and
- The severe storm activity in Victoria around the Christmas period.

Attritional natural peril events (less than \$15m in size) amounted to \$84m, compared to \$125m in 1H12.

1H13 NATURAL PERIL COSTS BY EVENT	A\$m
Storms - Brisbane and NSW (November 2012)	20
Windstorm and thunderstorms - Western Australia/Tamworth (November-December 2012)	29
Other events (<\$15m)	84
Total	133

NATURAL PERILS - IMPACT ON INSURANCE MARGIN



• Natural perils frecor allowance - margin impac

The Group's natural peril allowance in 1H13 was \$310m (ex-UK), an 18% increase over the equivalent figure in 1H12. The degree of increase has been influenced by the Group's decision to apportion the natural peril allowance evenly between the respective halves of the financial year, from FY13 onwards, as previously advised. This reflects the anticipated reduced seasonal effect of protection provided by the Group's aggregate catastrophe reinsurance cover, in light of higher attachment points.

Lower attachment points on calendar 2011 and prior year programmes tended to result in greater utilisation of aggregate cover in the second half of the calendar year (or opening half of the financial year). This was reflected in the prior year allocation of the allowance, including FY12.

The Group's natural peril allowance for FY13 is \$620m in respect of ongoing operations, an increase of over 8% compared to FY12 (\$573m).

The Group's updated insurance margin guidance for FY13 assumes a net natural peril outcome from ongoing operations in line with the full year allowance, of \$620m (ex-UK). While 1H13 peril experience was benign, the opening weeks of calendar 2013 have seen an increase in activity. The Group has advised an estimated net claim cost of \$120-140m in respect of ex-Tropical Cyclone Oswald and \$35m in respect of bushfires in NSW, Tasmania and Victoria, which occurred in the month of January 2013.

EXPENSES

The Group's reported expense ratio in 1H13 has reduced to 25.5% (1H12: 26.7%). Excluding government levies, the Group's administration ratio has improved from 14.2% in 1H12 to 13.1% in 1H13 reflecting the combination of increased net earned premium and tightly controlled expenditure.

The Group's commission ratio improved to 8.1%, compared to 8.4% in 1H12, partially reflecting changed business mix, including the addition of AMI which does not incur commission.

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for 1H13 was \$201m, compared to \$473m in 1H12. This outcome reflects differing discount rate adjustment impacts, with the effect of an increase in the risk free yield curve broadly offset by a \$90m benefit from credit spread contraction in 1H13. This was in contrast to the \$80m adverse impact incurred as a result of wider spreads in 1H12.

Allowing for credit spreads and the movement in the discount rate adjustment, the Group continued to generate over 100bps of return above the risk free rate, across the entire technical reserves portfolio. The portfolio continues to be aligned with the average weighted duration of the Group's claims liability, at three to four years.

NET CORPORATE EXPENSE

A pre-tax net corporate expense of \$21m has been identified in 1H13 (1H12: nil). The post-tax impact on reported earnings is approximately \$15m.

As previously indicated, this comprises costs associated with the implementation of CGU's revised operating model (\$17m) and integration costs associated with AMI in New Zealand (\$4m).

It remains the Group's expectation that net pre-tax corporate expenses from these sources will total around \$55m in FY13.

PROFIT FROM FEE BASED BUSINESS

Fee based business generated a profit of \$13m in 1H13, compared to \$10m in 1H12. The improved outcome reflects a higher contribution from CGU, driven by increased incentive fees in respect of the NSW workers' compensation scheme.

Strong expense control remains in evidence

Favourable credit spread impact in 1H13, in contrast to 1H12

Net corporate expenses are in respect of CGU's revised operating model and AMI integration

Higher incentive fee income in CGU

SHARE OF ASSOCIATES

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

- 49% of the Malaysian joint venture, AmG Insurance, which produced a strong, but lower, insurance margin of 12.6%, after inclusion of Kurniarelated transaction costs:
- 26% of SBI General in India, where modest losses were lower than expectations as it moves beyond the initial start-up phase;
- 20% of Bohai Property Insurance in China, where a small loss was better than expectations as IAG's capability transfer programme is rolled out; and
- 30% of AAA Assurance Corporation in Vietnam, which produced a small loss in line with expectations.

The combined contribution from these Asian businesses was a loss of \$3m, after allocation of \$9m of regional support and development costs. The Group's overall share of associates was a loss of \$2m (1H12: \$1m loss).

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a profit of \$201m, compared to a loss of \$30m in 1H12. The considerably stronger contribution largely reflects the direction of equity markets, with the broader Australian index (S&P ASX200 Accumulation) delivering a positive return of over 16% over the six months to 31 December 2012, compared to a negative return in the equivalent half of FY12.

At 31 December 2012 the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 43%, compared to 35% at 31 December 2011 and 40% at 30 June 2012. The increased weighting since 30 June 2012 reflects the outlay of funds held in short term fixed interest and cash to fund IAG's contribution to the Kurnia acquisition, as well as improved equity returns.

TAX EXPENSE

The Group reported a tax expense of \$227m in 1H13, representing an effective tax rate (pre-amortisation) of 23.7%. This reconciles to the prevailing Australian corporate rate of 30% after allowing for reinsurance recoveries by captive vehicles domiciled in lower tax jurisdictions.

NON-CONTROLLING INTERESTS

The \$60m non-controlling interests in the Group's profit compares to \$23m in 1H12. The increase reflects higher earnings attributable to the minority 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines form part of Australia Direct. The result of this business was particularly influenced by a lower net natural peril experience and a favourable credit spread impact, compared to 1H12.

AMORTISATION

The 1H13 amortisation charge of \$26m is higher than the \$8m recorded in 1H12 owing to the inclusion of amortisation associated with intangible assets recognised upon the acquisition of AMI.

As previously flagged, it is the Group's expectation that FY13's amortisation charge will be around \$35m. A skew to the front half of the financial year reflects the short amortisation schedule attached to certain identifiable intangible assets relating to AMI.

Share of associates largely derived from Asian interests

Higher shareholders' funds income reflects stronger equity markets

Higher non-controlling interests owing to improved IMA result

Higher amortisation includes AMI effect

DISCONTINUED OPERATION

Following the announcement of its sale in December 2012, the UK business has been disclosed separately as a discontinued operation. Comparative figures for both 1H12 and 2H12 have been adjusted accordingly.

The \$182m loss after tax from the discontinued operation in 1H13 comprises:

- An insurance loss for the period of \$11m;
- An operating loss of \$7m in respect of fee based business; and
- A loss on sale of the UK operations of \$164m.

A further loss of approximately \$80m is expected in 2H13, being primarily the recycling of a foreign currency loss previously included in reserves, which will be recognised upon completion of the sale transaction.

EARNINGS PER SHARE

Basic earnings per share (EPS) in 1H13 was 22.30cps, compared to 6.95cps in 1H12, an increase of approximately 220%. Basic EPS was calculated on weighted average capital on issue in 1H13 of 2,068m shares (excluding treasury shares).

	Shares
ORDINARY ISSUED CAPITAL	(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

¹ Excludes treasury shares held in trust.

On a diluted basis, EPS was 21.54cps (1H12: 6.91cps). EPS is diluted for the impact of the following hybrid instruments on issue:

- The \$377m of Convertible Preference Shares (CPS) issued in May 2012;
 and
- The £157m subordinated exchangeable term note, from its re-issue date of 25 October 2012.

Cash EPS was 33.08cps, compared to 7.48cps in 1H12, an increase of over 340%. 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.

	1H13
CASH EARNINGS	A\$m
Net profit after tax	461
Intangible amortisation	26
Unusual items:	
- Corporate expenses	21
- Tax effect on corporate expenses	(6)
- Net loss after tax from discontinued operations	182
Cash earnings	684
Dividend payable	229
Cash payout ratio	33.5%

UK identified as a discontinued operation

Strong cash EPS outcome of over 33cps

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

The Board has determined to pay a fully franked interim dividend of 11.0 cents per ordinary share (1H12: 5.0cps). The interim dividend is payable on 3 April 2013 to shareholders registered as at 5pm on 6 March 2013.

The dividend reinvestment plan (DRP) will operate for the interim dividend. The issue price per share for the 1H13 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 \$2,811m as at 31 December 2012. At this date, and after allowance for payment of the interim dividend, the Group's franking balance was \$548m, giving the capacity to

Increased interim dividend of 11cps (1H12: 5cps)

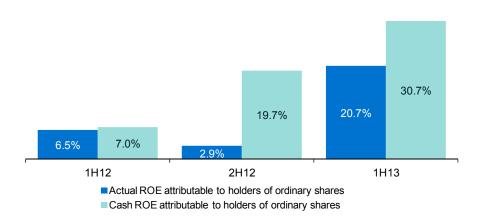
RETURN ON EQUITY

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 and impairment 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 1H13, the Group reported a cash ROE of 30.7%, compared to 7.0% in 1H12.

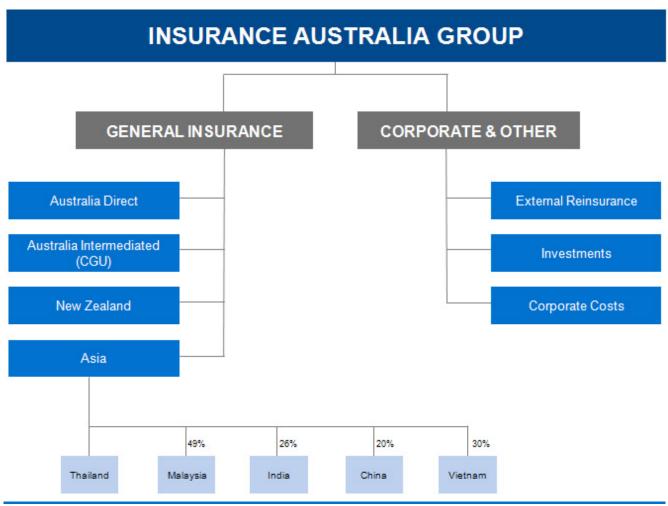
Cash ROE of 30.7%

RETURN ON EQUITY (ANNUALISED)

fully frank a further \$1,278m of distributions.



4. DIVISIONAL OVERVIEW



1H13 DIVISIONAL FINANCIAL PERFORMANCE (CONTINUING OPERATIONS)

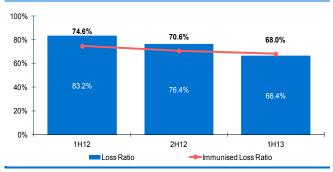
	Australia Direct	Australia Intermediated	New Zealand	Asia	Corporate & Other	Total Continuing
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	2,264	1,433	751	137	8	4,593
Gross earned premium	2,199	1,428	739	122	6	4,494
Reinsurance expense	(134)	(124)	(113)	(25)	(3)	(399)
Net earned premium	2,065	1,304	626	97	3	4,095
Net claims expense	(1,372)	(609)	(399)	(56)	-	(2,436)
Commission expense	(44)	(197)	(67)	(22)	(1)	(331)
Underwriting expense	(334)	(258)	(107)	(15)	-	(714)
Underwriting profit	315	240	53	4	2	614
Investment income on technical reserves	138	61	(1)	2	1	201
Insurance profit	453	301	52	6	3	815
Profit from fee based business	-	12	1	-	-	13
Share of profit/(loss) from associates	-	1	-	(3)	-	(2)
Total divisional results	453	314	53	3	3	826
Insurance Ratios						
Loss ratio	66.4%	46.7%	63.7%	57.7%		59.5%
Expense ratio	18.3%	34.9%	27.8%	38.2%		25.5%
Commission ratio	2.1%	15.1%	10.7%	22.7%		8.1%
Administration ratio	16.2%	19.8%	17.1%	15.5%		17.4%
Combined ratio	84.7%	81.6%	91.5%	95.9%		85.0%
Insurance margin	21.9%	23.1%	8.3%	6.2%		19.9%

FINANCIAL PERFORMANCE

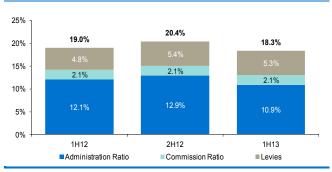
	1H12	2 2H12	1H13
	A\$m	n A\$m	A\$m
Gross written premium	2,080	2,219	2,264
Gross earned premium	1,996	2,076	2,199
Reinsurance expense	(130)	(132)	(134)
Net earned premium	1,866	1,944	2,065
Net claims expense	(1,553)	(1,485)	(1,372)
Commission expense	(40)	(41)	(44)
Underwriting expense	(316)	(355)	(334)
Underwriting profit/(loss)	(43)	63	315
Investment income on technical reserves	273	251	138
Insurance profit	230	314	453
Insurance Ratios	1H12	2 2H12	1H13
Loss ratio	83.2%	76.4%	66.4%
Immunised loss ratio	74.6%	70.6%	68.0%
Expense ratio	19.0%	20.4%	18.3%
Commission ratio	2.1%	2.1%	2.1%
Administration ratio	16.9%	18.3%	16.2%
Combined ratio	102.2%	96.8%	84.7%
Immunised combined ratio	93.6%	91.0%	86.3%
Insurance margin	12.3%	16.2%	21.9%

INSURANCE RATIOS

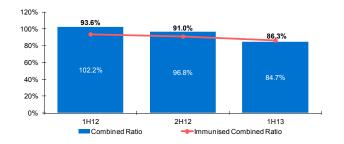
LOSS RATIO



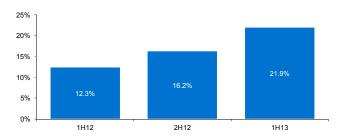
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



EXECUTIVE SUMMARY

- Australia Direct provides personal lines insurance products, including compulsory third party (CTP)
- Single pricing and claim platforms cover all its state-based brands: NRMA, RACV (via a distribution agreement), SGIO,
- Strong GWP growth of 8.8%
- Strong underlying performance in 1H13, despite pressure on NSW CTP profitability
- Reported margin of 21.9% boosted by favourable natural peril and credit spread impacts
- Similar underlying performance expected in 2H13



PREMIUMS

Australia Direct has reported an 8.8% increase in GWP, to \$2,264m (1H12: \$2,080m). This strong GWP growth was in line with expectations, and was driven largely by further rate increases to recover the substantial increase in reinsurance and natural peril claim costs experienced since calendar 2010. predominantly in respect of the home book.

While rate accounted for most of the period's GWP growth, this continued to be supplemented by volume gains, notably in motor and in the states outside NSW. This can be attributed to a range of marketing initiatives and the business' ongoing investment in customer insights and pricing capability, which in tandem are targeting growth in preferred risk areas.

Alongside the successful and refreshed 'Experience the Difference' brand campaign, Australia Direct has implemented a range of initiatives to address affordability, particularly with respect to the home portfolio. As well as increased premium and excess options on renewal, customers have greater flexibility to transfer customer loyalty rewards from one product sub-set to another.

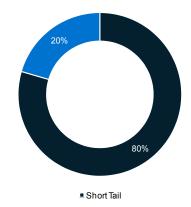
Growth was achieved across most product classes and in all states. An exception was the Retail Business Insurance (RBI) book, where a 17.6% decline in GWP compared to 1H12 is attributable to the exiting of poorerperforming segments and the transfer of the dealer business portfolio (c.\$20m GWP per annum) to CGU, with effect from 1 July 2012. The ongoing annual RBI book is approximately \$170m in size.

GWP GROWTH	1H12	2H12	1H13
Motor	5.7%	9.9%	6.3%
Home	16.7%	24.0%	17.5%
Total Short Tail	9.8%	15.0%	10.7%
Long Tail	5.2%	5.5%	7.4%
Retail Business Insurance (RBI)	(0.6%)	4.9%	(17.6%)
Total GWP	8.4%	12.5%	8.8%

GWP growth of 10.7% was recorded by Australia Direct's short tail business in 1H13. Most of this growth was derived from the cumulative impact of rate increases to recover higher input costs.

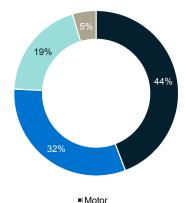
GWP growth of 8.8%

1H13 GWP BY TAIL



Long Tail

1H13 GWP BY CLASS



■Home

■ CTP

■ Other

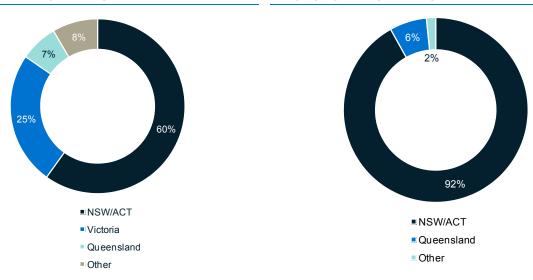
Motor continued to perform well, with GWP growth of 6.3% compared to 1H12. This was sourced roughly two thirds from rate and one third from volume. Due renewal levels remain high, at a similar level to those in FY12.

Home GWP rose by 17.5%, compared to 1H12, down from the peak of 24.0% witnessed in 2H12. Rate increases represent most of this growth. While home due renewal levels have remained high, they are slightly lower than those experienced in FY12.

Motor GWP growth of 6.3%, from mix of rate and volume

1H13 SHORT TAIL GWP BY STATE

1H13 LONG TAIL GWP BY STATE



Overall long tail (primarily CTP) GWP growth of 7.4% was recorded in 1H13, compared to 1H12. The majority of this was derived from rate, with the following approved rate increases influencing the outcome:

- NSW a 4.5% increase with effect from 1 July 2012;
- Queensland \$5 increments to the ceiling price with effect from both 1 April 2012 and 1 October 2012; and
- ACT an average increase of nearly 10%, from 1 September 2012.

With reduced investment yields (on the back of lower interest rates) and the rise in claim frequency experienced by the scheme, the NSW CTP regulator has approved a further rate increase of over 8% with effect from 1 February 2013. The review of pricing and scheme design in NSW is ongoing, with an outcome expected in the second half of calendar 2013. In Queensland, a further \$5 increase became effective on 1 January 2013, with another \$3 rise approved from 1 April 2013.

Total CTP policies in force were relatively flat compared to 1H12. Overall due renewal rates were similar to 1H12.

Australia Direct's share of NSW CTP registrations (on a 12-month rolling average basis) has remained around 41%. On a similar basis, Queensland CTP market share was 5.4% (1H12: 5.7%), with Australia Direct continuing to restrict marketing efforts following the scheme changes introduced in 2010. Australia Direct remains the sole provider of CTP products in the ACT.

During the half, Australia Direct introduced a number of new products, seeking to further leverage the strength of the NRMA Insurance brand. These included life insurance (underwritten by TAL Direct) and a bicycle product (underwritten by Swann Insurance (CGU)).

REINSURANCE EXPENSE

After large increases in prior years due to higher catastrophe costs and reinstatement charges, Australia Direct's reinsurance expense in 1H13 was similar to that of 1H12, at \$134m. This reflects the combined effect of:

- Higher catastrophe cover costs associated with the Group's calendar 2012 programme;
- Overall business growth; and
- The absence of amortised reinstatement costs incurred during 1H12.

CLAIMS

Australia Direct has reported a significantly lower loss ratio of 66.4% in 1H13 (1H12: 83.2%), primarily owing to:

- A substantially lower net natural peril claim cost than 1H12; and
- A favourable movement in the discount rate adjustment, reflecting an upward shift in the yield curve at 31 December 2012.

Scale benefits, assisted by growth in business volumes, continue to be realised.

On an immunised basis, the reduced 1H13 loss ratio of 68.0% (compared to 74.6% in 1H12) highlights the lower net natural peril claim cost incurred.

Reserve Releases

Reserve releases of \$53m were \$6m lower than those reported in 1H12. The majority of 1H13's reserve releases were sourced from the CTP portfolios, following favourable experience against existing underlying assumptions.

	1H12	2H12	1H13
RESERVE RELEASES	A\$m	A\$m	A\$m
Reserve releases	59	64	53
Impact on insurance margin	3.2%	3.3%	2.6%

Natural Perils

Losses from natural perils (net of reinsurance) totalled \$73m, an outcome \$91m lower than the allowance for the half and nearly \$120m below the level incurred in 1H12. The business experienced a benign period for natural perils, with no major events of note, unlike 1H12 which contained the substantial Victorian hailstorm event in late December 2011.

	1H12	2H12	1H13
NATURAL PERILS	A\$m	A\$m	A\$m
Natural perils	(192)	(180)	(73)
Natural perils allowance	146	153	164
Impact on insurance profit	(46)	(27)	91
Impact on insurance margin	(2.5%)	(1.4%)	4.4%

Benign natural peril experience

Flat reinsurance expense,

costs offset by absence of

with higher catastrophe

reinstatement costs

Claim Experience

Excluding natural perils, the 1H13 short tail claim experience, in both motor and home, was characterised by:

- A slight decrease in frequency compared to 1H12; and
- Underlying claim cost rises in line with inflation.

Slight decrease in short tail claim frequency

Overall claim experience also reflected the volume growth in the business over the past 18 months.

Australia Direct's revised partner network relationship model was launched in NSW metropolitan regions and Canberra on 1 July 2012. Comprising strong partnerships with a mix of motor repairers that provide different skills and specialities, the launch is already providing an improved customer experience and having a favourable impact on repair costs. The model will be extended to Victoria and Western Australia in 2013.

In NSW CTP, the proportion of customers injured in accidents who are making a claim has continued to rise, alongside the number of small claims made through the accident notification (ANF) process. Industry statistics show the overall number of claims being made has increased by 20% over the past four years, and the proportion of people injured in crashes who are making a claim has increased by 25% during the same period (Motor Accidents Authority Fact Sheet, December 2012).

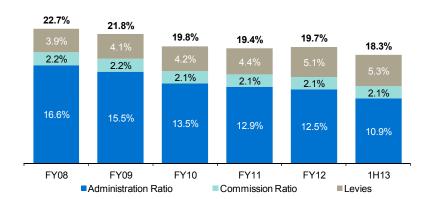
The ACT portfolio has experienced a slight reduction in claim levels in the half, and there has been no significant change in Queensland.

EXPENSES

Australia Direct's total expense ratio in 1H13 was 18.3%, compared to 19.0% in 1H12. This extends the improvement seen over the last few years, and is the product of:

- An improved administration expense ratio ex-levies of 10.9% (1H12: 12.1%), reflecting:
 - Ongoing pursuit of cost saving initiatives across the business, with expenditure relatively flat compared to 1H12; and
 - A backdrop of rising NEP; and
- A partial offset from higher levies, reflecting higher proportional growth in home GWP and an increase in fire service levy rates.

EXPENSE RATIO



INSURANCE PROFIT

Australia Direct has reported an insurance profit for 1H13 of \$453m, roughly double the \$230m reported in 1H12. This equates to a markedly higher reported insurance margin of 21.9% (1H12: 12.3%), with the outcome inflated by a benign natural peril experience and a favourable shift in credit spreads.

Improved efficiency continues to be evident

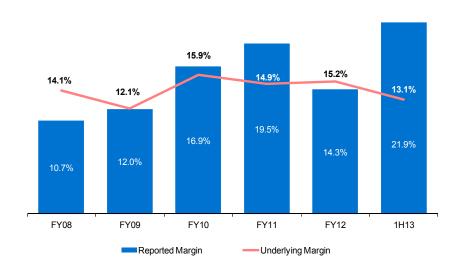
Underlying performance has remained strong

At an underlying level, Australia Direct's performance is slightly lower than FY12 but has remained strong. While short tail business returns have held up well, as previously foreshadowed NSW CTP profitability has been under pressure from lower investment yields, rising claim frequency experienced by the scheme and restricted ability to reflect this in pricing.

Underlying margin is defined as the reported insurance margin adjusted for:

- Net natural peril claim costs less related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

REPORTED VS. UNDERLYING INSURANCE MARGIN (%)



The higher reported margin compared to 1H12 is driven by a combination of:

- A nearly-\$120m reduction in net natural peril claim costs, given the absence of any major events in the period; and
- A favourable credit spread movement of over \$100m.

In addition, the positive impact of ongoing management initiatives, including increased investment in customer insights and effective pricing discipline, is continuing to improve the business' overall underwriting performance.

	1H12	2H12	1H13
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	59	64	53
Natural perils	(192)	(180)	(73)
Natural perils allowance	146	153	164
Credit spreads	(48)	6	58
Reserve releases	3.2%	3.3%	2.6%
Natural perils	(10.3%)	(9.3%)	(3.5%)
Natural perils allowance	7.8%	7.9%	7.9%
Credit spreads	(2.6%)	0.3%	2.8%

MARKET ENVIRONMENT, REGULATION AND REFORM

Competition in the Australian personal lines market remains intense, despite the substantial premium increases imposed over the past two years, notably in the home segment to recover higher reinsurance and natural peril costs.

Further premium increases are expected in home insurance, although affordability is of increasing concern. Industry volumes are expected to be

Competitive market conditions expected to persist

assisted by the lower interest rate and rising rental yield environment that should support an increase in dwelling investment, as well as improved conditions in the established housing market.

More moderate premium increases are being experienced in motor. New motor vehicle sales have been strong, with 2012 volumes roughly 10% higher than the prior year.

In 2012, the regulator announced a review of the NSW CTP scheme with the aim of stabilising prices and improving affordability for all motorists. The outcome of this review is expected in the second half of calendar 2013. Australia Direct is actively participating in this review process, with key areas of attention being:

- Equitable and affordable pricing;
- Scheme efficiency:
- Transparency of all costs in the scheme, including legal fees; and
- Optimal regulatory framework.

A number of regulatory changes and government or legislative reviews are either underway or expected, with potential implications for the insurance industry. These include:

- The transition from the insurance-based Fire Services Levy to a propertybased levy in Victoria, introduced from 1 July 2013;
- A potential review of the NSW Emergency Services Funding (and the associated insurance levy);
- A decision concerning whether the unfair contract terms should apply to insurance contracts;
- A decision whether to allow electronic distribution of Product Disclosure Statements; and
- The Senate Inquiry into recent trends in, and preparedness for, extreme weather events.

FY13 OUTLOOK

Australia Direct continues to build on improvements already achieved in underwriting quality, both around risk selection and cost efficiencies. Investment in customer insights, product design, internal processes and people development will continue.

Australia Direct expects further strong GWP growth in 2H13. This will continue to be driven by rate increases with some support from anticipated volume growth.

In CTP, lower investment yields and rising claim frequency experienced by the NSW scheme are continuing to impact returns, however recent approval to increase rates in NSW will provide some assistance in 2H13 and beyond.

Australia Direct expects to deliver an underlying 2H13 margin similar to that of 1H13. This is expected to move towards a mid-teens level in FY14, as the pressures on NSW CTP are addressed.

The business' reported margin in 2H13 is expected to be significantly lower than 1H13. This assumes a return to a more normal perils experience in 2H13, and no significant movement in investment markets from 31 December 2012.

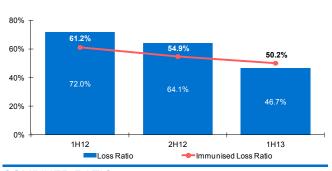
Similar underlying margin in 2H13, despite continued pressure on NSW CTP profitability

FINANCIAL PERFORMANCE

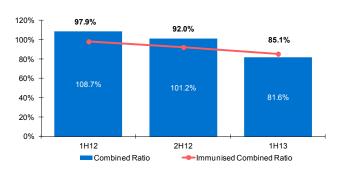
	1H12	2H12	1H13
	A\$m	A\$m	A\$m
Gross written premium	1,330	1,429	1,433
Gross earned premium	1,307	1,326	1,428
Reinsurance expense	(121)	(124)	(124)
Net earned premium	1,186	1,202	1,304
Net claims expense	(854)	(770)	(609)
Commission expense	(188)	(181)	(197)
Underwriting expense	(247)	(265)	(258)
Underwriting profit/(loss)	(103)	(14)	240
Investment income on technical reserves	182	193	61
Insurance profit	79	179	301
Profit from fee based business	9	4	12
Share of profit/(loss) from associates	-	(2)	1
Total divisional result	88	181	314
Insurance Ratios	1H12	2H12	1H13
Loss ratio	72.0%	64.1%	46.7%
Immunised loss ratio	61.2%	54.9%	50.2%
Expense ratio	36.7%	37.1%	34.9%
Commission ratio	15.9%	15.1%	15.1%
Administration ratio	20.8%	22.0%	19.8%
Combined ratio	108.7%	101.2%	81.6%
Immunised combined ratio	97.9%	92.0%	85.1%
Insurance margin	6.7%	14.9%	23.1%

INSURANCE RATIOS

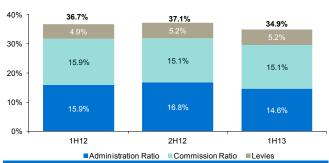
LOSS RATIO



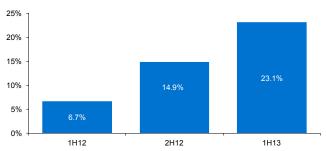
COMBINED RATIO



EXPENSE RATIOS

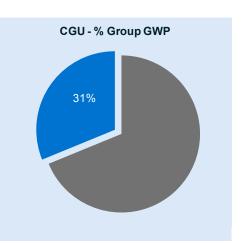


INSURANCE MARGIN



EXECUTIVE SUMMARY

- Australia Intermediated (CGU) comprises all products sold through brokers, authorised representatives, business partners and motor dealers
- 1H13 GWP growth of 7.7%, largely driven by rate
- Further improvement in underlying performance
- Reported margin of 23.1% boosted by favourable natural peril, reserve release and credit spread impacts
- Implementation of new operating model proceeding to plan -\$25m pre-tax benefits expected in FY13
- On track for underlying double digit margin in FY13 (1H13: 10.7%)



PREMIUMS

CGU's 1H13 GWP increased by 7.7% to \$1,433m, compared to 1H12 (\$1,330m), reflecting solid growth in most areas of the business. Excluding bolt-on acquisition effects, GWP momentum has improved over each of the last three halves.

GWP growth in 1H13 was sourced from the following combination of factors:

- Strong rate increases (up to double digit in some cases) across most property classes, to recover the substantial increase in reinsurance and natural peril costs experienced since calendar 2010;
- Volume growth, most notably across commercial lines products, workers' compensation and some niche portfolios; and
- Improvement in retention rates in those portfolios subject to remediation action over recent periods, where retention had previously fallen.

While rate increases have been achieved in larger corporate accounts, the SME segment is still not seeing the same degree of hardening. Ongoing pricing adjustments have been applied to underperforming portfolios, while liability rates have remained relatively flat.

Rollout of flood cover on home and landlord portfolios is nearing completion and lower retention rates for these portfolios are in line with expectations. These are expected to increase to long term averages once this process is complete.

Reported GWP received a small fillip from the dealer business portfolio (c.\$20m GWP per annum) which was transferred from Australia Direct with effect from 1 July 2012.

Overall business mix is broadly consistent with that of the preceding financial year.

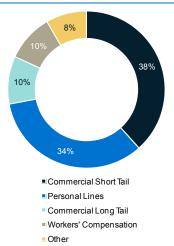
REINSURANCE EXPENSE

After large increases in prior years due to higher catastrophe costs and reinstatement charges, CGU's reinsurance expense in 1H13 is similar to that of 1H12, at \$124m. This reflects the combined effect of:

- Higher catastrophe cover costs associated with the Group's calendar 2012 programme;
- Overall business growth; and
- The absence of amortised reinstatement costs incurred during 1H12.

Solid GWP growth driven primarily by rate

1H13 GWP BY CLASS



Flat reinsurance expense, with higher catastrophe costs offset by absence of reinstatement costs

CLAIMS

CGU's reported loss ratio of 46.7% for 1H13 is a significant improvement against 1H12 (72.0%), and reflects the combination of:

- A substantially lower net natural peril claim cost than 1H12;
- A favourable movement in the discount rate adjustment, reflecting an upward shift in the yield curve at 31 December 2012;
- A doubling of reserve releases compared to 1H12;
- The impact of higher net earned premium, of nearly \$120m, as a result of year-on-year price increases and growth in business volumes; and
- Continuing improvement in underlying claims performance with lower claim frequency more than offsetting claim inflation which remains in line with expectations.

Benefits from a range of claim process efficiency and cost saving initiatives (commenced in FY12) have continued into FY13. The rollout of CGU's new claim management system began late in 1H13.

On an immunised basis, the 1H13 loss ratio is 50.2%, compared to 61.2% in 1H12

Reserve Releases

Prior period reserve releases of \$80m were double those reported in 1H12 (\$40m). These releases reflect continued favourable claim performance across the long tail portfolios of workers' compensation and professional risks.

	1H12	2H12	1H13
RESERVE RELEASES	A\$m	A\$m	A\$m
Reserve releases	40	45	80
Impact on insurance margin	3.4%	3.7%	6.1%

The level of reserve releases, as a proportion of NEP, is expected to diminish in 2H13 owing to the absence of certain notable case-specific releases identified in 1H13.

Natural Perils

Losses from natural perils (net of reinsurance) totalled \$49m, which was over \$60m lower than the allowance for the half and \$67m below the level incurred in 1H12. CGU experienced a benign period for natural perils, with no major events of note, unlike 1H12, which contained the substantial Victorian hailstorm event in late December 2011.

	1H12	2H12	1H13
NATURAL PERILS	A\$m	A\$m	A\$m
Natural perils	(116)	(59)	(49)
Natural perils allowance	89	131	112
Impact on insurance profit	(27)	72	63
Impact on insurance margin	(2.3%)	6.0%	4.8%

Underlying claim performance continues to improve

Higher reserve releases from long tail classes

Benign natural peril experience

EXPENSES

Reported expenses, comprising commission and underwriting costs, totalled \$455m in 1H13, compared to \$435m in 1H12. This equates to an improved expense ratio of 34.9% in 1H13 (1H12: 36.7%), as the 4.6% increase in costs incurred was outstripped by NEP growth of 9.9%.

The increase in expenses, compared to 1H12, includes:

- A \$9m increase in commission expense driven by business growth;
- A \$9m increase in fire service levies, reflecting an increase in fire service levy rates and premium growth;
- Higher operating costs associated with sales volume growth and inflation;
 and
- \$13m of cost savings realised from recent business improvement initiatives, primarily systems simplification projects and benefits emerging from the new operating model.

Excluding levies, the 1H13 expense ratio of 29.7% compares favourably with the 1H12 outcome of 31.8%.

REVISED OPERATING MODEL

OneCGU (CGU's new operating model) was launched in March 2012 and continues to be rolled out across the business. The project is on track to deliver cost savings of \$25m in FY13, rising to \$65m by the end of FY15.

The new model simplifies CGU's structure, making it easier for brokers and agents to deal with the business. The move to an integrated, function-based organisation with common approaches to account management, underwriting and claims is removing areas of duplication within the business and enabling CGU to provide a more efficient and consistent service to its intermediaries and business partners.

Implementation is proceeding to plan, with key actions taken to date including:

- Appointment of senior managers and teams across all product lines;
- Restructuring of the core functions of underwriting, claims and account management;
- Establishment of a Customer Service Centre (CSC) in Melbourne, with a second facility in Ballarat focusing on rural lines;
- Roll-out of CGU's ClaimCentre nationally;
- Establishment of a single consolidated personal lines insurance underwriting centre; and
- Consolidation of Broker & Agent and Workers' Compensation business streams within a single function servicing the one channel.

Related total pre-tax restructuring costs of \$75m are anticipated, of which \$36m was recognised in the Group's net corporate expense line in FY12, with a further \$17m identified in 1H13. The balance, of approximately \$22m, is expected to be included in the Group's 2H13 result.

INSURANCE PROFIT

CGU reported an insurance profit of \$301m, a substantial increase over 1H12 (\$79m). This equates to an insurance margin of 23.1% (1H12: 6.7%). The result embraces further improvement in the underlying performance of the business, while the reported margin has materially benefited from a combination of natural peril, reserve release and credit spread effects.

Cost savings driving improved expense ratio

Implementation of revised operating model tracking to plan

Improved underlying performance continues

CGU expects to build on this underlying improvement as the results of portfolio remediation activities continue to flow through and the benefits of its new operating model are fully realised.

Underlying margin is defined as the reported insurance margin adjusted for:

- Net natural peril claim costs less related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

REPORTED VS. UNDERLYING INSURANCE MARGIN (%)



In addition to the business' underlying improvement, the significantly stronger reported margin in 1H13 has been driven by:

- A \$67m reduction in net natural peril claim costs;
- A \$40m increase in prior period reserve releases; and
- A favourable credit spread movement of \$64m.

	1H12	2H12	1H13
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	40	45	80
Natural perils	(116)	(59)	(49)
Natural perils allowance	89	131	112
Credit spreads	(32)	4	32
Reserve releases	3.4%	3.7%	6.1%
Natural perils	(9.8%)	(4.9%)	(3.8%)
Natural perils allowance	7.5%	10.9%	8.6%
Credit spreads	(2.7%)	0.3%	2.5%

FEE BASED INCOME

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 1H13, net income from fee based operations was \$12m, compared to \$9m in 1H12.

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.

Increased fee based income from workers' compensation schemes

The 1H13 result contained \$3m of prior period fee income compared to \$4m in 1H12. Excluding this income, the underlying result was \$4m higher than 1H12, driven by an increase in incentive fees in NSW.

SHARE OF ASSOCIATES

Share of associates is principally represented by the 50%-owned Accident & Health International Underwriting Pty Limited (A&HI). CGU has underwritten 100% of A&HI's business since 1 January 2011.

MARKET ENVIRONMENT, REGULATION AND REFORM

The intermediated insurance market remains competitive, however there is continued evidence of rational pricing behaviour.

Personal lines pricing is showing greater growth than commercial lines, largely driven by property premium increases. Short tail commercial lines pricing is expected to continue to harden, but at a lesser rate, with low-to-mid-single-digit increases in the SME segment.

Long tail classes are expected to continue to experience soft premium growth. There are indications, however, of some positive movement in certain commercial liability and professional indemnity lines.

The workers' compensation market continues to reflect signs of a two-speed economy in Western Australia, with the still buoyant mining and construction sectors a contrast to slowing consumer and retail sectors. Wage growth remains strong, but mainly in the construction and mining sectors. There is evidence of price stabilisation in Western Australia, while the ACT remains competitive. Rate increases are being seen in both the Northern Territory and Tasmanian markets.

A number of regulatory changes and government or legislative reviews are either underway or expected, with potential implications for the insurance industry. These include:

- The transition from the insurance-based Fire Services Levy to a propertybased levy in Victoria, introduced from 1 July 2013;
- A potential review of the NSW Emergency Services Funding (and the associated insurance levy);
- A decision concerning whether the unfair contract terms should apply to insurance contracts;
- A decision whether to allow electronic distribution of Product Disclosure Statements; and
- The Senate Inquiry into recent trends in, and preparedness for, extreme weather events.

FY13 OUTLOOK

CGU remains on track to deliver a double digit underlying margin in FY13.

The expectation remains that the new operating model will deliver pre-tax cost savings of \$25m in FY13, rising to \$65m by the end of FY15. These benefits will arise from the more streamlined and cost effective operations that the new operating model delivers, along with a clearer focus on customer needs.

CGU's reported 2H13 margin is expected to be significantly lower than that of 1H13, assuming a return to a more normal perils experience and no significant movement in investment markets from 31 December 2012.

The Australian intermediated market remains competitive

On track for double digit underlying margin in FY13

GWP in 2H13 will be impacted by the removal of the Fire Services Levy in Victoria. After allowing for this, current levels of GWP growth are expected to continue for the balance of FY13, driven by a continuation of rate increases in short tail commercial and personal lines, as well as volume growth across a number of portfolios. Momentum is being helped by the creation of one account management team for each channel under the new operating model.

CGU's revised operating model has created a solid foundation from which to drive further improvement and build on the financial turnaround achieved to date

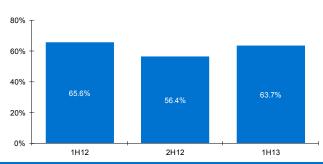
7. NEW ZEALAND

FINANCIAL PERFORMANCE

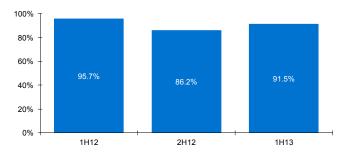
	1H12	2H12	1H13
	A\$m	A\$m	A\$m
Gross written premium	538	672	751
Gross earned premium	517	623	739
Reinsurance expense	(63)	(86)	(113)
Net earned premium	454	537	626
Net claims expense	(298)	(303)	(399)
Commission expense	(56)	(63)	(67)
Underwriting expense	(81)	(97)	(107)
Underwriting profit	19	74	53
Investment income on technical reserves	14	(4)	(1)
Insurance profit	33	70	52
Profit from fee based business	1	1	1
Total divisional result	34	71	53
Insurance Ratios	1H12	2H12	1H13
Loss ratio	65.6%	56.4%	63.7%
Expense ratio	30.1%	29.8%	27.8%
Commission ratio	12.3%	11.7%	10.7%
Administration ratio	17.8%	18.1%	17.1%
Combined ratio	95.7%	86.2%	91.5%
Insurance margin	7.3%	13.0%	8.3%

INSURANCE RATIOS

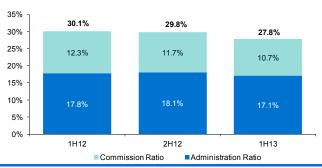
LOSS RATIO



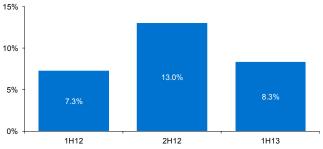
COMBINED RATIO



EXPENSE RATIOS

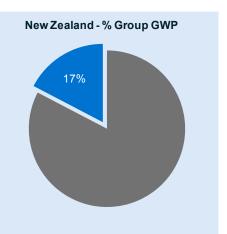


INSURANCE MARGIN



EXECUTIVE SUMMARY

- IAG is the largest underwriter in New Zealand, trading under the State. NZI and AMI brands
- Strong local currency GWP growth of 38.6%, driven by the first full six months of AMI and rate increases
- AMI integration tracking to plan
- Improved insurance margin of 8.3%, despite \$40m earthquakerelated reserve strengthening
- Christchurch rebuild gathering pace as seismic activity diminishes
- Continuation of strong underlying performance expected in 2H13



PREMIUMS

New Zealand's 1H13 GWP of \$751m increased by nearly 40% compared to 1H12 (\$538m), and by 38.6% in local currency terms. This strong growth reflects a full six months contribution from AMI (1H12: nil), as well as rate increases, specifically in the domestic home book applied to recover increased reinsurance costs. Excluding AMI, 1H13 reported GWP rose by 8.4% in local currency terms. All distribution channels reported GWP growth in 1H13.

The NZI intermediated channel represented approximately 44% of New Zealand's GWP in 1H13. The focus of rate increases in the period was on the domestic home book, whilst continuing to manage commercial rate increases to offset higher reinsurance costs. The attainment of significant post-earthquake increases in commercial lines in FY12 helped ease the pressure for further large rate increases in these portfolios in 1H13. New business opportunities in commercial lines remain steady, in contrast to challenging personal lines growth where customers are more price sensitive as increasing costs impact affordability. Retention is holding across both the commercial and personal lines portions of the intermediated business. NZI's strong market standing has continued, with it winning 'Insurer of the Year' for the second year in a row.

The direct personal lines channel accounted for approximately 44% of New Zealand's GWP in 1H13, with the State and AMI brands contributing similar amounts of premium. Significant rate increases have been applied to the respective domestic home portfolios.

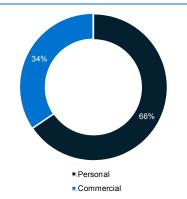
State is focused on keeping other product line increases at inflationary levels to help address customer affordability concerns. It continues to focus on customer retention through excess options, product choices and operational initiatives centred on improving the customer experience and realising efficiency gains wherever possible.

While the AMI business is being integrated into the broader direct personal lines operation, it has concentrated on strengthening the brand following the lack of advertising during the AMI sale process. A renewed focus on customer acquisition and retention activities has seen improvement in customer retention over recent months.

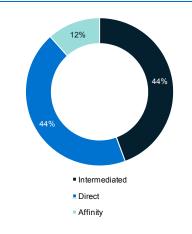
Increased GWP from the Business Partners' affinity brands has been largely driven by strong domestic home owners and contents new business growth. Further rate increases in the domestic home book averaging in excess of 20% have continued to flow through this portfolio, while inflationary rate increases were applied to the domestic contents and motor portfolios. Personal lines retention was in line with expectations.

Local currency GWP growth of 38.6% (8.4% ex-AMI)

1H13 GWP BY CLASS



1H13 GWP BY CHANNEL



REINSURANCE EXPENSE

Reinsurance expense of \$113m was nearly 80% higher than 1H12 (\$63m). The increase reflects the combination of:

- Increased catastrophe cover costs as a result of the Canterbury earthquakes;
- The inclusion of costs from the standalone AMI programme (1H12: nil);
 and
- The absence of reinstatement costs amortised in 1H12.

The AMI reinsurance programme was renewed with effect from 1 July 2012, for a total period of 30 months (up until 31 December 2014). It comprises a main catastrophe cover for losses up to NZ\$1.3bn, including one prepaid reinstatement.

CLAIMS

The 1H13 net claims expense of \$399m (1H12: \$298m) translates to an improved loss ratio of 63.7% (1H12: 65.6%). Notable features of the net movement are:

- Lower net natural peril costs of \$11m;
- Reserve strengthening of \$40m; and
- Inclusion of a full six months of claims activity from AMI (1H12: nil).

	1H12	2H12	1H13
NATURAL PERILS	A\$m	A\$m	A\$m
Natural perils	(23)	(26)	(11)
Natural perils allowance	25	25	31
Impact on insurance profit	2	(1)	20
Impact on insurance margin	0.4%	(0.1%)	3.2%

Natural peril activity in the half was benign, with costs falling well below the allowance for the period, of \$31m. The most significant event was the Christchurch hailstorm in early September 2012.

	1H12	2H12	1H13	
RESERVE RELEASES	A\$m	A\$m	A\$m	
Reserve releases/(strengthening)	(19)	4	(40)	
Impact on insurance margin	(4.2%)	0.7%	(6.4%)	

Seismic activity in the Canterbury region continues to reduce. The business has recognised a net prior period reserve strengthening of \$40m, primarily in respect of the June 2011 earthquake event. Reserving for this event is now up to the NZ\$250m reinsurance attachment point.

The division of claim costs between the four respective major earthquake events since September 2010 continues to be refined, influenced by Earthquake Commission (EQC) claims apportionment and decisions on land settlement.

As at 31 December 2012, the New Zealand business had paid in excess of NZ\$1.7bn in claim settlements in respect of the Canterbury earthquakes (30 June 2012: over NZ\$1.3bn). Of this, over 70% relates to commercial line claims.

Settlement of commercial claims continues to progress in line with expectations, with around 60% of claims settled by the end of December 2012. Residential claims have been slower to finalise, but the completion of

Increased reinsurance expense reflects earthquake effects and inclusion of AMI

Improved loss ratio of 63.7%

all land zoning decisions in Christchurch in October 2012 has assisted in providing customers with greater certainty over the timing of their repairs or rebuild. IAG is targeting completion of all rebuilds and repairs by the end of 2015.

Working claim experience continues to be favourable reflecting operational initiatives rolled out in previous years, with lower frequency slightly offset by higher claim inflation. During 1H13, large claim (>NZ\$100,000) incidence was lower than expectations and 1H12 experience. This favourable underlying claim performance is expected to continue as higher excesses roll through the domestic home portfolio.

EXPENSES

Total reported expenses in 1H13, of \$174m, were \$37m higher than 1H12 (\$137m), in large part reflecting inclusion of a full six months of AMI. The total expense ratio improved to 27.8% (1H12: 30.1%), partly reflecting the lower cost nature of the direct AMI business.

Commission expense increased by over 19% compared to 1H12, to \$67m, broadly commensurate with GWP growth in the intermediated channel. In large part the improved commission ratio of 10.7% (1H12: 12.3%) reflects the greater proportion of the business that is represented by direct personal lines, following the acquisition of AMI. Like-for-like commission rates were broadly flat.

Underwriting expenses of \$107m were over 30% higher than 1H12. This reflects the inclusion of AMI, as well as higher project costs relating to preparation for changes in domestic home policies, increasing regulation and inflationary increases, including higher salary and staff-related costs.

The Canterbury recovery, the integration of AMI and responding to the changing reinsurance and regulatory environments all remain key areas of focus. The business continues to invest in areas that will ensure its sustainability in the future.

The introduction of deferred acquisition cost (DAC) accounting in respect of AMI is benefiting New Zealand's reported expense ratio over a 12-month period ending in early April 2013, the anniversary of AMI's acquisition. The cessation of this process will result in an increase in anticipated expense ratio in 2H13. In 1H13, a DAC-related benefit of \$6m was recognised.

INSURANCE PROFIT

The New Zealand business reported an insurance profit of \$52m in 1H13, compared to \$33m in 1H12. This equates to an improved insurance margin of 8.3%, compared to 7.3% in 1H12, owing to the combined effect of:

- Further rate increases to recover higher reinsurance costs, combined with a six-month contribution from AMI to deliver NEP growth of nearly 38%;
- A more benign natural peril experience, within the related allowance; and
- An offsetting reserve strengthening of \$40m, largely in respect of the June 2011 earthquake event.

AMI contributed an insurance profit slightly ahead of expectations.

The reported margin was lower than the 13.0% recorded in 2H12, owing to the absence of any reserve strengthening in that period.

The business has continued to deliver a strong underlying underwriting performance, after allowance for natural peril effects and prior period reserve movements.

Improved expense ratio partly reflects inclusion of AMI

Strong underlying profitability maintained

AMI INTEGRATION

Integration of the AMI business continues to track to plan. Integration milestones are being delivered on time and the business remains focused on key areas of efficiency improvement. Annual synergies of at least NZ\$30m are anticipated within two years of acquisition (April 2012), with early synergies of around NZ\$4m realised in 1H13.

Actions completed to date include:

- The alignment of shared services functions;
- The creation of a dedicated team focusing on synergy realisation;
- The successful integration of all AMI staff within IAG;
- Consolidation of product and pricing teams;
- Supplier review and procurement consolidation;
- Completion of the reinsurance renewal; and
- The launch of new marketing activity, to highlight the local presence of AMI branches and incorporating a strong regional message customised for specific areas.

Pre-tax acquisition and integration costs associated with AMI of approximately \$4m have been identified within the Group's net corporate expense line in 1H13. Further integration costs of approximately \$12m are expected to be recognised in net corporate expenses in 2H13.

MARKET ENVIRONMENT, REGULATION AND REFORM

The underlying economic environment continues to be subdued, as household spending remains cautious and unemployment rates have increased over the last two quarters. There is still an expectation that the Canterbury rebuild will provide increased stimulus to the economy in FY14.

Customer affordability concerns are starting to materialise as further rate increases are applied to recoup higher reinsurance costs and higher EQC levies put pressure on household and business expenditure. An increasing number of customers are taking up voluntary excesses and are increasing deductibles as a way of managing costs. With a very high level of insurance uptake in the home market, the industry is mindful of ensuring affordability issues do not drive lower levels of insurance.

The New Zealand home insurance market is facing a fundamental change with a move away from 'open-ended' policies to specified sum insured policy limits. This change, to satisfy the needs of global reinsurers to have greater certainty on claim exposures in the event of catastrophes, will be introduced over the next six months and will bring New Zealand in line with existing common practice in Australia. IAG recognises this change requires a new level of engagement with, and from, customers as policies transition, and is committed to communicating this transition effectively. IAG has developed an extensive campaign, to be launched in March 2013, to support its successful implementation.

While there continues to be some risk of sizeable aftershocks in the Canterbury region, probability modelling shows that the likelihood of an earthquake greater than magnitude 6.0 is now less than 10%. The completion of all remaining zoning decisions by the government in October 2012, and greater visibility of the construction process and timeframes, is providing improved certainty for affected residents.

The industry is progressively easing underwriting restrictions in Canterbury in response to reduced seismic risk. From 1 October 2012, IAG reduced previously existing restrictions for inner Canterbury, Christchurch City and

AMI integration on track to deliver synergies of NZ\$30m per annum within two years

Move to specified sum limits in respect of home

Selwyn District, and across all its brands cover will now be considered for all new builds in TC1 and TC2-categorised properties in Christchurch and in the Port Hills and rural Canterbury regions. Commercial underwriting conditions have also been eased, with IAG considering all insurances on a case-bycase basis.

In September 2012 the government announced the Review of the Earthquake Commission Act 1993. The first stage has sought input on the lessons learnt from engagement with the EQC in Canterbury. IAG continues to engage with the review in the lead-up to a round of public consultation, with legislation expected in mid-to-late 2013.

In August 2012 the government initiated a review of the functions, form and funding of New Zealand's fire services. The final report recommends minor changes to broaden the funding base and reduce equity concerns, but leaves in place a funding model based on a levy on insurance contracts. The main recommendations are to extend the types of commercial contracts that attract the levy and alter the basis on which the levy is calculated, and to investigate sourcing a proportion of the funding from the transport sector. The government is reviewing the recommendations.

The revised non-life solvency standard that forms part of the new prudential regime requires all insurers to hold sufficient earthquake reinsurance for a 1 in 500 year return period from 31 December 2012, increasing to 1 in 1,000 years by 2016. These requirements will significantly increase the level of reinsurance required by New Zealand insurers. The overall Group reinsurance programme already covers New Zealand for a 1 in 1,000 year event.

FY13 OUTLOOK

GWP growth is expected to continue in 2H13. Excluding the impact of AMI, which has been consolidated since April 2012, this is expected to be at a lower rate than FY12 as momentum slows down for new business opportunities in corporate and commercial business lines and competition remains strong in personal lines. Customer retention is expected to remain steady through marketing and operational initiatives.

Underlying profitability is expected to remain strong, driven by a number of key factors:

- A strong earnings base generated from achievement of significant price increases to recover higher input costs, combined with corrective pricing action taken in previous years;
- Continued integration of AMI and the realisation of significant synergies;
- Further progress on the transformation of the direct insurance operation by taking the best elements of both the AMI and State businesses in determining a new operating model;
- Continued focus on disciplined underwriting across the business; and
- Claim practices continuing to have a strong impact on containing frequency and claim inflation.

Strong underlying profitability to be maintained in 2H13

FINANCIAL PERFORMANCE

1H12	2H12	1H13
		пптэ
A\$m	A\$m	A\$m
94	125	137
92	101	122
(19)	(21)	(25)
73	80	97
(114)	(41)	(56)
(17)	(17)	(22)
(13)	(15)	(15)
(71)	7	4
4	1	2
(67)	8	6
(1)	(2)	(3)
(68)	6	3
1H12	2H12	1H13
156.2%	51.3%	57.7%
41.1%	40.1%	38.2%
23.3%	21.3%	22.7%
17.8%	18.8%	15.5%
197.3%	91.4%	95.9%
(91.8%)	10.0%	6.2%
	94 92 (19) 73 (114) (17) (13) (71) 4 (67) (1) (68) 1H12 156.2% 41.1% 23.3% 17.8% 197.3%	94 125 92 101 (19) (21) 73 80 (114) (41) (17) (17) (13) (15) (71) 7 4 1 (67) 8 (1) (2) (68) 6 1H12 2H12 156.2% 51.3% 41.1% 40.1% 23.3% 21.3% 17.8% 18.8% 197.3% 91.4%

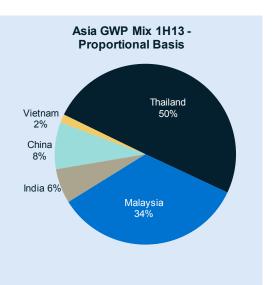
¹Insurance ratios include divisional expense overlays and are not a true representation of the standalone consolidated business (Thailand).

FINANCIAL CONTRIBUTION BY COUNTRY

	Gross	GWP	Proportio	onal GWP	Earnings C	ontribution
	1H12	1H13	1H12	1H13	1H12	1H13
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Thailand	94	137	94	137	(63)	9
Malaysia	99	192	49	94	7	10
Established markets	193	329	143	231	(56)	19
India	24	66	6	17	(2)	(2)
China	-	114	-	23	-	(1)
Vietnam	-	12	-	4	-	(1)
Developing markets	24	192	6	44	(2)	(4)
Total Asian operations	217	521	149	275	(58)	15
Support and development costs	n/a	n/a	n/a	n/a	(10)	(12)
Total divisional result	217	521	149	275	(68)	3

EXECUTIVE SUMMARY

- IAG has an investment of approximately \$740m in Asia with representation in five of six targeted markets: Thailand, Malaysia, India, China and Vietnam
- The division is on track to achieve its goal of representing 10% of Group GWP by 2016, on a proportional basis
- Asia accounted for 5.8% of 1H13 Group GWP on that basis (FY12: 4.0%)
- Strong GWP growth in India and Thailand, with Malaysia boosted by inclusion of Kurnia from October 2012
- Underlying performance of established businesses
 (Thailand and Malaysia) remains strong
- Significantly improved divisional profit of \$3m, assisted by absence of Thai floods
- Small divisional profit expected in FY13



REGIONAL STRATEGY AND PRESENCE

IAG has identified Asia as a long term growth opportunity. The Group's Asian strategy is based around three key tenets:

- Effective market entry a disciplined and structured approach, targeting high growth and regionally significant markets;
- Local partnering identification of local partners aligned to IAG's
 aspirations and with a strong brand, customer base and distribution
 footprint. IAG appointees occupy key positions in each joint venture; and
- Capability transfer IAG brings value-add through capability transfer across the insurance process chain.

IAG has identified six target markets in the region and has established a presence in five of them:

- Thailand: IAG holds controlling interests in Safety Insurance, a predominantly motor insurer (c.80% of GWP) and NZI Thailand, a commercial insurer, following the establishment of an initial presence in Thailand in 1998. The businesses operate under a single licence (Safety Insurance) whilst retaining the use of both brands.
- Malaysia: 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. The joint venture was established in 2006, and is the largest motor insurer in Malaysia following the acquisition of Kurnia Insurans (Malaysia) Berhad (Kurnia) in September 2012.
- India: 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. SBI General commenced limited underwriting from April 2010 and is building a portfolio with a presence in the corporate, retail and SME markets across India, with the majority in the retail segment distributed through SBI's bancassurance channel.
- China: IAG acquired a 20% interest in Bohai Property Insurance
 Company Ltd (Bohai Insurance) in April 2012. Bohai Insurance was
 established in 2005, and has a predominantly motor insurance focus. It is
 headquartered in Tianjin and has a strong emphasis on the surrounding
 pan-Bohai region.
- Vietnam: IAG acquired a 30% interest in AAA Assurance Corporation in May 2012. AAA Assurance is a privately held business headquartered in Ho Chi Minh City which commenced operation in 2006 and has grown rapidly to become the seventh largest motor insurer in Vietnam.

Presence established in five out of six target markets

The Group continues to assess opportunities in its remaining target market, **Indonesia**.

The Group has established the following financial targets for the Asia division:

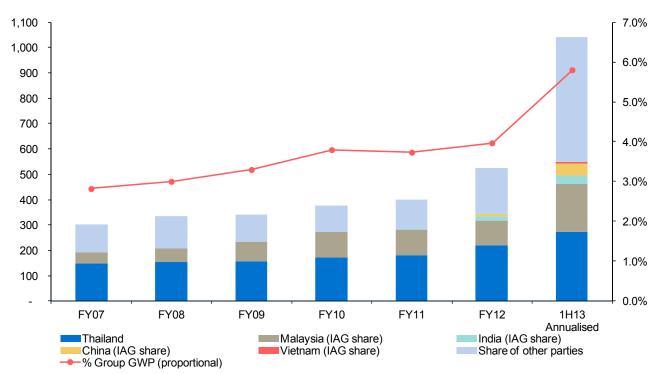
- To represent 10% of Group GWP by 2016, on a proportional basis; and
- To achieve an ROE in excess of 15% by FY17, before regional support and development costs.

In 1H13, Asia represented 5.8% of the Group's GWP on a proportional basis, compared to 4.0% in FY12, based on ongoing operations. After allowance for a full six months of Kurnia, which was consolidated by AmG from October 2012, the 1H13 figure rises to 6.2%.

Proportional GWP of \$275m in 1H13 increased by 85% compared to 1H12 (\$149m), reflecting recent acquisitions in China and Vietnam, enlarged operations in Malaysia, rapid expansion in India and a strong post-flood recovery in Thailand. IAG now participates in a gross regional annualised GWP pool in excess of \$1.1bn, after inclusion of a full period's contribution from Kurnia.

Asia represented 5.8% of Group 1H13 GWP, on a proportional basis

ASIAN GWP POOL (A\$M / % OF GROUP GWP)



Note: All amounts have been converted to A\$ using the exchange rate at the most recent reporting date to aid comparability. The % of Group GWP is calculated after exclusion of the discontinued UK operation.

As at 31 December 2012, IAG's investment in Asia was approximately \$740m, of which around \$540m is in the established and profitable markets of Thailand and Malaysia.

THAILAND

Operating Performance

The Thai business reported strong GWP growth of over 46% in 1H13 in both reported and local currency terms. This rebound embraced the following features, all linked to the massive floods experienced in 1H12:

- A return to full output by local car production plants;
- The government's tax incentive scheme for first-time vehicle owners; and
- Heightened risk awareness by consumers.

Safety Insurance's above-industry growth, supported by its strong reputation for customer service, has cemented its position as the third largest motor insurer in Thailand.

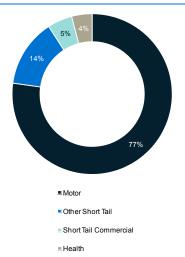
GWP growth is expected to slow down in the second half of the financial year with the termination of the government's tax incentive for new car buyers.

The Thai business produced a strong improvement in underlying insurance margin of 8.8% (1H12: 4.5%). This was achieved on the back of a lower loss ratio of 59.8% (1H12: 65.7%) from favourable claim experience. The expense ratio of 34.6% was slightly higher than 1H12 (34.3%), owing to the increased proportion of GWP derived from motor which attracts higher commission rates.

After inclusion of Group reinsurance overlays, the Thai business reported a substantially improved insurance profit of \$9m, compared to the flood-impacted loss of \$63m in 1H12. The 1H13 result was lower than that of 2H12 as the latter included a positive one-off claim reserve adjustment for the major flood event incurred in the preceding six months.

Strong GWP growth and improved underlying performance from Thailand

THAILAND GWP BY CLASS



	1H12		2H12		1H13	
THAILAND FINANCIAL PERFORMANCE	₿m¹	A\$m ²	₿m¹	A\$m ²	₿ m¹	A\$m ²
Gross written premium	2,960	94	3,998	125	4,339	137
Net earned premium	2,220	73	2,463	80	2,955	97
Net claims expense	(1,459)	(114)	(1,388)	(41)	(1,768)	(56)
Commission and underwriting expenses	(762)	(26)	(813)	(26)	(1,021)	(34)
Investment income on technical reserves	101	4	72	1	95	2
Insurance profit/(loss)	100	(63)	334	14	261	9
Insurance Ratios						
Loss ratio	65.7%		56.4%		59.8%	
Expense ratio	34.3%		33.0%		34.6%	
Combined ratio	100.0%		89.4%		94.4%	
Insurance margin	4.5%		13.6%		8.8%	

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

Market Environment, Regulation and Reform

The long term outlook for Thailand remains positive. The economy is expected to have grown by over 5% in 2012, supported by increased government infrastructure spending and foreign direct investment. Consensus is for marginally lower growth in 2013.

The general insurance industry is expected to have grown by in excess of 20% in calendar 2012, driven mainly by higher volumes. The Thai government's tax incentive scheme for first-time car buyers and interest rate cuts by the central bank in October 2012, resulting in cheaper car financing for consumers, have been instrumental in this. With the government's incentive scheme concluding on 31 December 2012, a return to high single digit growth rates is anticipated from 2H13.

Positive industry and economic outlook in Thailand

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

The substantial hike in reinsurance premiums in the aftermath of the devastating floods in 2011 has had limited impact on gross premium rates as property damage and industrial risks account for a relatively small portion of Thailand's overall non-life industry.

MALAYSIA

Operating Performance

AmG Insurance has continued to perform strongly, with the overall result boosted by the inclusion of Kurnia from October 2012 onwards. Operating under both the AmAssurance and Kurnia brands, AmG is now a clear leader in the Malaysian motor market with a market share in excess of 20%.

1H13 GWP of \$192m represented an increase of over 90% compared to 1H12 (\$99m), with the growth essentially due to a maiden three-month contribution from Kurnia. Excluding Kurnia, AmG's GWP was comparable to 1H12 as a result of a tougher car financing environment for Malaysian consumers and the planned exit from some unprofitable business segments.

AmG's insurance margin in 1H13 declined to 12.6% (1H12: 19.4%), owing to a higher expense ratio which included Kurnia transaction costs of approximately RM21m (\$6m). AmG's loss ratio, of 61.3%, has continued to register significant improvement (1H12: 63.0%), following claim process reengineering and enhancement leading to reduced leakage.

AmG's earnings contribution increased by over 40% to \$10m in 1H13, compared to 1H12 (\$7m), assisted by the first time inclusion of Kurnia from October 2012.

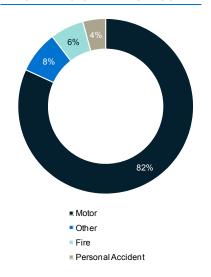
The Kurnia integration progress is well on track, with actions in progress including:

- The alignment and rationalisation of the combined branch footprint to service both AmG and Kurnia customers;
- Transitioning to a single core insurance platform;
- Utilisation of Kurnia's centralised processing capability for AmG's existing business; and
- Harmonisation of back office processes.

It remains the Group's expectation that synergies of approximately RM50m will be realised within a two-year period.

AmG has continued to perform strongly

AMG - 1H13 GWP BY CLASS



	1H12		2H12		1H13	
Amg Financial Performance	RMm	A\$m	RMm	A\$m	RMm	A\$m
Gross written premium	317	99	319	101	605	192
Net earned premium	284		279		509	
Net claims expense	(179)		(177)		(312)	
Commission and underwriting expenses	(70)		(73)		(165)	
Investment income on technical reserves	20		18		32	
Insurance profit	55		47		64	
Net profit after tax	47		40		65	
Net profit after tax - IAG's share (49%)	23	7	20	6	32	10
Insurance Ratios						
Loss ratio	63.0%		63.4%		61.3%	
Expense ratio	24.6%		26.2%		32.4%	
Combined ratio	87.6%		89.6%		93.7%	
Insurance margin	19.4%		16.8%		12.6%	

Market Environment, Regulation and Reform

The Malaysian economy is expected to have grown by around 5% in 2012, with similar growth anticipated in 2013. Strong domestic demand has been partially offset by exports exposed to the weak global environment.

Malaysia's general insurance market is expected to grow by an average 6-7% per annum until 2016. With moderate GDP growth, a strengthening regulatory environment and significant development in insurance penetration to come, Malaysia continues to offer good long term growth prospects. There is scope for further consolidation in what is still a fragmented and highly competitive market.

The Malaysian government has announced a gradual revision of the motor tariff over a four-year period commencing January 2012 to improve efficiency and pave the way for eventual market liberalisation. This is expected to impact the competitive landscape, with premium rates further differentiated according to the risk profile of individual vehicles and drivers. AmG's scale will be a significant benefit in such conditions.

Positive economic and industry growth outlook, with motor reforms on the way

INDIA

Operating Performance

In 1H13, SBI General generated GWP equivalent to \$66m (IAG's 26% share being approximately \$17m), an increase of over 170% against 1H12 (\$24m). In local currency terms, half-on-half GWP growth was in excess of 200%. A significant portion of this growth was derived from home building business written through the bancassurance channel.

IAG's share of SBI General's losses in 1H13 was \$2m, similar to 1H12 but better than expectations.

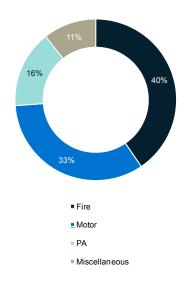
As at the end of 1H13 SBI General had over 52 products in the market, and had expanded its distribution access to encompass the 40 million customers and 5,000 branches of SBI's five subsidiary and associate banks. SBI General currently has 31 dedicated branches across the major cities of India.

SBI General currently has over 1,200 employees, compared to 600 a year ago. 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 into the operational phase.

It remains the Group's expectation that SBI General will reach profitability by FY15, and will achieve a top three position in the private sector, with around 5% market share and the equivalent of approximately \$1bn GWP (subject to FX movements), by 2016.

Rapid GWP growth from SBI General

SBIG - 1H13 GWP BY CLASS



	1H12	2	2H12	2	1H13	3
SBI GENERAL FINANCIAL PERFORMANCE	₹m	A\$m	₹m	A\$m	₹m	A\$m
Gross written premium	1,218	24	2,295	44	3,694	66
Net (loss) after tax	(450)		(563)		(527)	
Net (loss) after tax - IAG's share (26%)	(117)	(2)	(146)	(3)	(137)	(2)

Market Environment, Regulation and Reform

The general insurance market in India is currently growing at nearly 20%, with private sector growth outstripping that of the four public insurers which still represent over half of the market. Average forecast growth for the industry is 16% per annum until 2020.

The regulatory framework continues to incorporate reforms conducive for growth in the insurance industry. These include the restructuring of the Third Party Motor Pool, where insurers will be able to keep the benefits from efficiencies in claim management.

Improved reinforcement and directives from the Insurance Regulatory and Development Authority (IRDA) and the Indian Ministry of Finance should see a steady uplift in the profitability of the non-life sector. This includes active discouragement of the public sector insurers from giving unsustainable discounts to maintain market share, as well as increased third party motor tariffs.

In October 2012, the Indian cabinet cleared the way for legislation to raise foreign direct investment in the insurance sector from its current 26% limit to 49%. The bill was originally tabled for parliament in December 2012, but has been deferred. IAG has an option to increase its shareholding in SBI General to 49%, subject to a change in the law.

CHINA

Operating Performance

IAG has been recognising its 20% share of Bohai Insurance's results since 1 May 2012. In 1H13, Bohai Insurance reported GWP equivalent to \$114m (IAG's 20% share being approximately \$23m), with a strong focus on more profitable lines of business and selective geographical areas.

The immediate focus has been on the implementation of more stringent and effective underwriting controls and risk selection to drive profitability in the motor segment. A number of IAG personnel have been seconded to the head office in Tianjin to roll out capability transfer programmes in the areas of actuarial reserving, motor risk selection, commercial pricing framework development, strategy development, claims management and reinsurance.

IAG's share of Bohai Insurance's net loss after tax was \$1m in 1H13, which was better than expectations. The main drivers were the improved loss ratio from the tightening of risk selection, as well as cost savings from the right-sizing of operations.

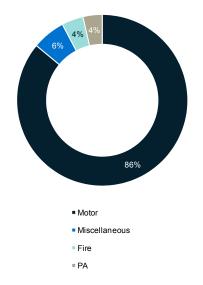
It remains the Group's expectation that Bohai Insurance will reach profitability by FY15.

BOHAI INSURANCE FINANCIAL PERFORMANCE	2H12	2	1H13	3
(FROM 1 MAY 2012)	CNYm	A\$m	CNYm	A\$m
Gross written premium	257	40	733	114
Net (loss) after tax	(10)		(48)	
Net (loss) after tax - IAG's share (20%)	(2)	0	(10)	(1)

¹Bohai Insurance's financial results have been included with effect from 1 May 2012 (Bohai Insurance reports on a 31 December year end basis).

Indian market continues to grow strongly

Better than expected underwriting performance from Bohai Insurance



Market Environment, Regulation and Reform

China remains an attractive general insurance market underpinned by strong forecast growth. GDP is forecast to grow by 7-8% 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 recorded premium growth of 16% in calendar 2012.

Following the enhancement of risk management and market discipline in recent years, the Chinese insurance regulator (CIRC) is steadily introducing plans for solvency reform, implementing less restrictive investment rules, opening compulsory motor insurance to foreign players and conducting a partial liberalisation of the commercial motor market. As a result, increased competition from key players and new entrants is anticipated.

Strong industry growth outlook in China over next decade

VIETNAM

Operating Performance

IAG commenced recognition of its 30% share of AAA Assurance's results from 1 July 2012. In 1H13, AAA Assurance reported GWP equivalent to \$12m (IAG's 30% share being approximately \$4m).

Defined capability transfer programmes are centred on the three key areas of risk, profitability and growth, with early work focused on building the foundations of the business in terms of controls and risk management. IAG has seconded a number of personnel to AAA Assurance.

IAG's share of AAA Assurance's loss after tax was \$1m, which was in line with expectations. The Group expects AAA Assurance to reach breakeven by FY15.

	1H13	
AAA ASSURANCE FINANCIAL PERFORMANCE	VNDm	A\$m
Gross written premium	240,502	12
Net (loss) after tax	(73,901)	
Net (loss) after tax - IAG's share (30%)	(22,170)	(1)

¹AAA Assurance's financial results have been included with effect from 1 July 2012 (AAA Assurance reports on a 31 December year end basis).

30% share of AAA Assurance recognised from July 2012

Market Environment, Regulation and Reform

Vietnam possesses strong economic fundamentals and a low insurance penetration rate, resulting in forecast industry growth of 17-18% per annum until 2016. Motor presently represents 30% of general insurance premiums, significantly lower than in other South East Asian countries. The pace of regulatory reform has increased, aimed at building a modern and professional insurance industry.

Strong industry growth outlook in Vietnam over next decade

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 cost of developing opportunities in new and existing markets.

The regional support and development costs are self-funded within the division and, for reporting purposes, are allocated between the consolidated business (Thailand) and shares of associates (Malaysia, India, China and Vietnam). Total regional support and development costs for 1H13 increased

Slight increase in business development costs

to \$12m (1H12: \$10m) owing to additional expenditure incurred in respect of the investments in India, China and Vietnam, along with the pursuit of opportunities in Indonesia.

	1H12	2H12	1H13
REGIONAL SUPPORT AND DEVELOPMENT COSTS - ALLOCATION	A\$m	A\$m	A\$m
Consolidated operations (Thailand)	4	6	3
Associates (Malaysia, India, China & Vietnam)	6	5	9
Total regional support and development costs	10	11	12
	%	%	%
Total costs/share of regional GWP	6.8%	5.5%	4.4%

FY13 OUTLOOK

The overall Asian business is expected to produce an improved FY13 result of a modest profit. Strong GWP growth is anticipated, both on a gross and proportional basis, with a key element of this being a nine-month contribution from Kurnia as part of the enlarged AmG business.

The underlying performance of the Thai and Malaysian businesses is expected to remain strong over the balance of FY13, with sound organic growth anticipated in both markets.

The integration of Kurnia in Malaysia is a key focus for FY13. The emphasis is on maintaining Kurnia's agent and broker relationships, while consolidating operational capability around processes, distribution, product development and supplier costs. The Group continues to expect the realisation of RM50m of synergies over two years, partially offset by integration costs.

SBI General in India will enter the next level of its business expansion by rolling out further new branches and increasing its product range, all supported by the IT systems already in place. Very strong GWP growth is anticipated, along with further, but reducing, operating losses as the business continues to progress beyond its start-up phase.

A further priority will be the capability transfer programmes with respect to Bohai Insurance in China. These will build the foundation necessary for Bohai Insurance's expansion into a significant business over the next few years.

In Vietnam, the priority is the realignment of operations through capability transfer in claims, underwriting, corporate governance and risk management, as well as to enhance efficiencies in the back office operations.

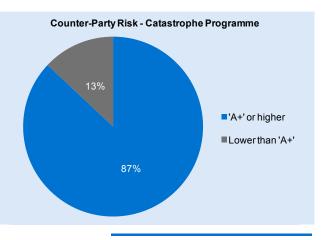
With a presence established in five out of the six identified priority markets, IAG will continue to assess opportunities in Indonesia. The preferred approach is via joint venture with a distribution partner, facilitated by the acquisition of an insurance licence.

Modest divisional profit anticipated in FY13

9. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of the Group's overall approach to capital management
- Catastrophe programme renewed 1 January 2013 with increased cover of up to \$5bn
- Outcome in line with assumptions contained in insurance margin guidance
- Significant moderation in regional rate increases
- Strong counter-party risk profile



REINSURANCE STRATEGY

IAG'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 modified whole of portfolio is the sum of all correlated risk). The limits purchased reflect a 1-in-250 year return period, which is more conservative than the regulator's 1-in-200 year return period requirement.

The Group's Australian-based captive reinsurer absorbs 100% of the total reinsurance spend, both treaty and facultative, of the Australian businesses. A key responsibility of the captive is to capture and manage counter-party and regulatory exposures within a single entity.

The Group's international captive reinsurers underwrite 100% of New Zealand and Thailand treaty business, and a substantial amount from the other parts of Asia in which IAG has joint venture interests. IAG's international business units continue to place some facultative reinsurance directly with the external market.

The Group provides considerable input to the reinsurance covers concluded by its associates in Malaysia, India, China and Vietnam.

MARKET ENVIRONMENT

There has been a significant moderation in the rate of increase in reinsurance rates applicable to the region. This follows the more benign regional peril environment over the last 12 months, in contrast to the unprecedented sequence of major natural peril events in Australia and New Zealand experienced in FY11 and FY12. Throughout, reinsurance capacity 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 2013, and experienced rate increases in line with those embodied in its insurance margin guidance at the beginning of FY13.

CATASTROPHE COVER

IAG's catastrophe reinsurance protection runs to a calendar year and operates on an excess of loss basis. It covers all territories in which IAG has operations, with the exception of AMI which has a dedicated programme.

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

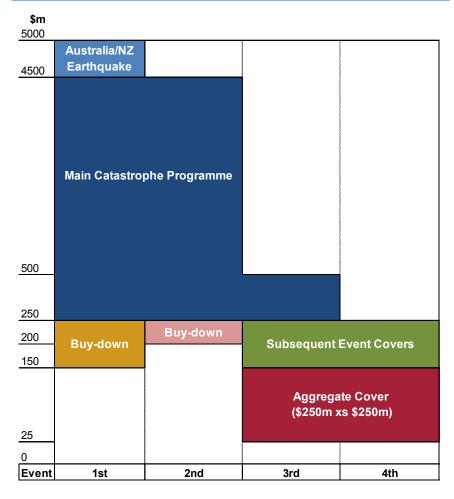
Significant moderation in regional reinsurance rate increases

Increased catastrophe cover of up to \$5bn, for calendar 2013

9. REINSURANCE

While similar in structure to 2012's cover, IAG's 2013 Group catastrophe programme contains increased coverage in three areas: at the upper end of the main programme; a second event buy-down secured for 2013; and with respect to the aggregate cover.

2013 CATASTROPHE REINSURANCE COVER – AS AT 1 JANUARY 2013



At renewal on 1 January 2013 the integrated programme comprised the following key components:

- A main catastrophe cover for losses up to \$4.5bn, 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) contracted for a period of three years commencing 1 January 2012, at agreed prices. Two reinstatements of this layer have been secured;
- A \$500m upper layer providing earthquake cover in respect of Australia and New Zealand. This layer is also contracted for a three-year period from 1 January 2012, and in 2013 extends from \$4.5bn to \$5.0bn;
- A buy-down arrangement that reduces the maximum cost of a first event to \$150m;
- A buy-down arrangement that reduces the maximum cost of a second event to \$200m;
- Subsequent event cover providing protection above \$150m; and
- An aggregate sideways cover of \$250m excess of \$250m, with qualifying events capped at a maximum contribution of \$125m excess of \$25m, per event.

9. REINSURANCE

In respect of New Zealand, all amounts itemised above in respect of the Group's 2013 catastrophe programme are denominated in NZ\$. For example, the main catastrophe cover is in respect of losses of up to NZ\$4.5bn. This is consistent with prior year programmes.

At 1 July 2012, the Group renewed reinsurance protection for the AMI business in New Zealand. The AMI-specific catastrophe reinsurance protection will initially run to a financial year and operate on an excess of loss basis. At renewal on 1 July 2012 the integrated programme comprised the following key components:

- A main catastrophe cover for losses up to NZ\$1.3bn, including one reinstatement, with the Group retaining the first NZ\$30m of each loss;
- An upper layer, from NZ\$1.3bn to NZ\$1.4bn, providing earthquake cover;
 and
- A buy-down arrangement that reduces the maximum cost of a first event to NZ\$25m.

Following the expiration of this cover on 30 June 2013, the Group has secured additional protection for AMI up to 31 December 2014. This comprises a main catastrophe cover for losses up to NZ\$1.3bn, including one prepaid reinstatement, with the Group retaining the first NZ\$20m of each loss

The combination of covers in place at 1 January 2013 results in maximum first event retentions of \$150m for Australia, \$120m (NZ\$150m) for New Zealand and \$25m for Thailand.

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.

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 2012 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.

COUNTER-PARTY RISK

The counter-party credit profiles for the key reinsurances of the Group, as at 1 January 2013, were:

- Over 87% 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.

AMI standalone protection renewed until 31 December 2014

Group MER of \$150m at 1 January 2013

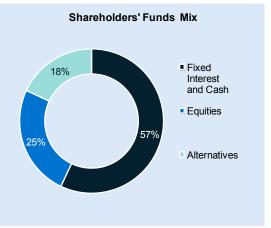
Casualty reinsurances renewed with minimal price increases

Strong counter-party risk profile

10. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of \$13.1bn as at 31 December 2012
- Overall investment allocation remains conservatively positioned
- Technical reserves of \$9.1bn all invested in fixed interest and cash
- Continue to target over 100bps of return above the risk free rate across the technical reserves portfolio
- Growth asset allocation in shareholders' funds increased from 40% to 43%
- Investment returns reflect stronger equity markets
- Very high fixed interest credit quality: 86% 'AA' or higher



Technical reserves

securities

invested in duration-

matched fixed interest

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; and
- To maintain portfolio liquidity, invested in accordance with Group policies.

INVESTMENT STRATEGIES

As at 31 December 2012, the Group's overall investment allocation remained conservatively positioned, with 87% of total investments in fixed interest and cash. Technical reserves were entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was 57%.

The Group's allocation to growth assets was 43% of shareholders' funds at 31 December 2012 (30 June 2012: 40%). Within the Group's allocation to growth assets, alternative investments accounted for 18% of shareholders' funds as at 31 December 2012 (30 June 2012: 19%). These alternative investments typically display a lower volatility than equities, deliver a higher return than fixed income and increase overall investment diversification. The Group's largest allocation in alternative investments is to global convertible bonds.

Distinct investment strategies for technical reserves and shareholders' funds

GROUP INVESTMENT ASSETS

The Group's investments totalled \$13.1bn as at 31 December 2012, excluding investments held in joint ventures and associates, with nearly 70% represented by the technical reserves portfolio. Total investments at 30 June 2012 were \$13.0bn.

The small increase in investment assets since 30 June 2012 reflects the net effect of:

 Lower technical reserves of \$9.1bn, owing to the exclusion of investments in respect of the discontinued UK operations; and Total investments of \$13.1bn

10. INVESTMENTS

 Increased shareholders' funds of \$4.0bn as a result of the strong operating performance of the Group during the half, along with positive investment returns.

	1H12	2H12	1H13
GROUP INVESTMENT ASSETS	A\$bn	A\$bn	A\$bn
Technical reserves	9.0	9.4	9.1
Shareholders' funds	3.7	3.6	4.0
Total investment assets	12.7	13.0	13.1
Other funds managed on behalf of third parties	0.5	0.5	0.5

ASSET ALLOCATION

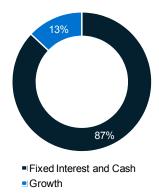
Since 30 June 2012, the most significant change in asset allocation has been the reduced proportion of shareholders' funds held in fixed interest and cash. To a large extent this movement reflects the outlay of funds held in short term fixed interest and cash to fund IAG's contribution to the Kurnia acquisition completed in 1H13, as well as improved equity returns compared to 1H12.

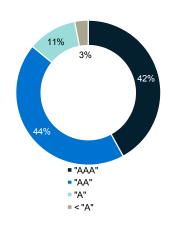
87% of total investments in fixed interest and cash

GROUP ASSET ALLOCATION			
	1H12	2H12	1H13
SHAREHOLDERS' FUNDS	%	%	%
Australian equities	17.2	20.5	23.1
International equities	0.4	0.5	1.5
Alternatives	17.2	18.6	18.0
Fixed interest and cash	65.2	60.4	57.4
Total	100.0	100.0	100.0
TECHNICAL RESERVES	%	%	%
Australian equities	-	-	-
International equities	-	-	-
Alternatives	0.8	1.1	-
Fixed interest and cash	99.2	98.9	100.0
Total	100.0	100.0	100.0
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES	%	%	%
Australian equities	5.0	5.7	7.0
International equities	0.1	0.1	0.5
Alternatives	5.6	6.0	5.5
Fixed interest and cash	89.3	88.2	87.0
Total	100.0	100.0	100.0

GROUP ASSET ALLOCATION - 31 DECEMBER 2012

CREDIT QUALITY – 31 DECEMBER 2012





10. INVESTMENTS

CREDIT QUALITY OF ASSETS

The credit quality of the Group's investment book remains high, with 86% 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 2012, the sensitivity of the Group's net profit before tax to market movements in investments was as set out in the table below, and includes indirect sensitivities relating to alternative assets.

	Change in Assumption		
INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX)	+1%	-1%	
AS AT 31 DECEMBER 2012	A\$m	A\$m	
Equity market values:			
Australian equities	8	(8)	
International equities	4	(4)	
Total equity market sensitivity	12	(12)	
Interest rates:			
Assets backing technical provisions	(315)	337	
Assets backing shareholders' funds	(28)	30	
Total interest rate sensitivity	(343)	367	

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.

1H13 investment returns reflect stronger equity markets

INVESTMENT RETURNS	1H12		2H	2H11		1H13	
(INCLUDING DERIVATIVES)1	A\$m	<mark>%</mark> 2	A\$m	<mark>%</mark> 2	A\$m	<mark>%</mark> 2	
Technical reserves	475	5.3	449	4.8	201	2.2	
Shareholders' funds	(30)	(8.0)	119	3.3	201	5.0	
Total investment income	445	3.5	568	4.4	402	3.1	

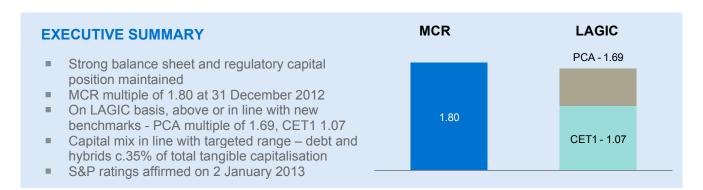
¹Returns are accounting yields, being investment income based on average exchange rates divided by closing funds under management.

Investment returns on technical reserves in 1H13 benefited from the relatively high excess yield of the portfolio over the course of the period. The 3-year government bond yield rose to 2.67%, from 2.46% at 30 June 2012.

Allowing for narrower credit spreads and the movement in interest rates, the Group continued to generate over 100bps of return above the risk free rate, across the entire technical reserves portfolio. The portfolio continues to be aligned with the weighted average duration of the Group's claims liability, at three to four years.

Investment returns on shareholders' funds benefited from the Australian and international equity markets appreciating in reaction to accommodative global central bank activity. The broader Australian index (S&P ASX200 Accumulation) returned 16.4% over the six months to 31 December 2012.

²Half year returns have not been annualised.



BALANCE SHEET

	1H12	2H12	1H13
	A\$m	A\$m	A\$m
Assets			
Cash and cash equivalents	466	969	458
Investments	12,704	12,953	13,069
Investments in joint ventures and associates	273	384	536
Premium receivable	2,069	2,502	2,366
Trade and other receivables	655	449	614
Reinsurance and other recoveries on outstanding claims	4,209	3,928	3,044
Deferred acquisition costs	718	753	738
Deferred reinsurance expense	675	493	809
Intangible assets	240	225	207
Goodwill	1,647	1,625	1,631
Assets discontinued operation	-	-	1,138
Other assets	836	851	739
Total assets	24,492	25,132	25,349
Liabilities			
Outstanding claims	11,826	11,709	10,528
Unearned premium	4,477	4,942	4,817
Interest bearing liabilities	1,627	1,659	1,572
Trade and other payables	777	1,135	1,099
Liabilities discontinued operation	-	-	1,103
Other liabilities	1,272	1,163	1,462
Total liabilities	19,979	20,608	20,581
Net assets	4,513	4,524	4,768
Equity			
Equity attributable to holders of ordinary shares	4,367	4,343	4,562
Non-controlling interests	146	181	206
Total equity	4,513	4,524	4,768

The total assets of the Group as at 31 December 2012 were \$25,349m compared to \$25,132m at 30 June 2012. While representing a relatively modest increase of just over \$200m, notable movements therein include:

- The separate identification of all UK-related amounts as 'assets discontinued operation' following the Group's decision to sell the UK business, with associated reductions in most other asset categories;
- A greater than \$500m reduction in cash and cash equivalents, including the application of funds to increase the Group's investment in AmG

Insurance in Malaysia following its purchase of Kurnia in September 2012;

- A corresponding increase in investments in joint ventures and associates;
- Reduced reinsurance recoveries on major prior year events as related claims have been settled; and
- A greater than \$300m increase in deferred reinsurance expense reflecting completion of the calendar 2013 catastrophe renewal.

The other assets category primarily represents the aggregate of deferred levies and charges, deferred tax assets, and property and equipment.

The total liabilities of the Group as at 31 December 2012 were \$20,581m, compared to \$20,608m at 30 June 2012. The modest decrease over the period includes the following notable movements:

- The separate identification of all UK-related amounts as 'liabilities discontinued operation' following the Group's decision to sell the UK business, with associated reductions in most other liability categories;
- Reduced outstanding claims on major prior year events as related claims have been settled:
- An \$87m reduction in interest bearing liabilities following repayment of a subordinated note issue in November 2012; and
- An approximately \$300m increase in other liabilities, largely reflecting the increase in reinsurance payable following completion of the calendar 2013 catastrophe renewal.

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

IAG shareholders' equity (excluding non-controlling interests) increased, from \$4,343m at 30 June 2012 to \$4,562m at 31 December 2012. This movement reflects the net effect of:

- A strong operating earnings performance from continuing operations in 1H13;
- The \$182m loss recognised in respect of the discontinued UK operations; and
- Payment of the 12 cents per share dividend declared in respect of 2H12 (\$249m).

GOODWILL & INTANGIBLES

Total goodwill and intangibles at 31 December 2012 stood at \$1,838m, down from \$1,850m at 30 June 2012, comprising \$1,631m of goodwill (FY12: \$1,625m) and \$207m of other intangible assets (FY12: \$225m).

Much of the reduction since 30 June 2012 was in respect of amortisation recognised during 1H13.

CAPITAL

Capital Adequacy

At 31 December 2012 the Group's capital position was strong, with an MCR multiple of 1.80. This compares to 1.74 at 30 June 2012 and the Group's target benchmark of 1.45 to 1.50.

The positive movement since 30 June 2012 is largely explained by the net effect of:

The Group retains a strong capital position under the old regulatory regime...

- The Group's strong operating earnings performance in 1H13;
- The further partial unwind of higher balance sheet values associated with the substantial natural peril activity incurred in FY11; and
- The increased investment in joint ventures, following IAG's increased investment in its Malaysian associate, AmG, following the latter's purchase of Kurnia in September 2012.

Reflecting the above factors, the Group's regulatory capital at 31 December 2012 increased to \$4,696m, and its MCR increased to \$2,602m.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H12 A\$m	2H12 A\$m	1H13 A\$m
Tier 1 capital	74/11	74/11	7-4/11
Paid-up ordinary shares	5,353	5,353	5,353
Non-controlling interests	146	181	206
Treasury shares	(38)	(29)	(43)
Hybrid equity ¹	454	917	927
Reserves	(100)	(68)	(56)
Retained earnings	(828)	(887)	(670)
Excess technical provisions (net of tax)	379	665	678
Less: deductions ²	(2,341)	(2,464)	(2,355)
Total Tier 1 capital	3,025	3,668	4,040
Tier 2 capital			
Hybrid equity in excess of Tier 1 limit ¹	446	10	-
Subordinated debt ³	705	710	642
Other	15	14	14
Total Tier 2 capital	1,166	734	656
Capital base	4,191	4,402	4,696
Minimum Capital Requirement (MCR):			
Insurance risk	1,464	1,495	1,533
Investment risk	867	886	919
Catastrophe concentration risk	150	150	150
Total MCR	2,481	2,531	2,602
MCR multiple	1.69	1.74	1.80

¹Hybrid equity includes Reset Exchangeable Securities (RES) and Convertible Preference Shares (CPS). The RES are classified under APRA's prudential standards as 'Innovative Tier 1', and the CPS are classified as 'Non-Innovative Tier 1'. Residual Tier 1 securities ('Innovative' plus 'Non-Innovative') are eligible to be included in Tier 1 capital up to a limit of 25% of net Tier 1 capital. The aggregate amount of these securities in excess of this limit is included in Tier 2 capital.

The Australian regulator, APRA, has introduced a revised regime for Life and General Insurance Capital (LAGIC), operative from 1 January 2013. The Group remains strongly capitalised under LAGIC, and has set the following related targeted benchmarks:

 A total capital position equivalent to 1.4 to 1.6 times the Prescribed Capital Amount (PCA), which replaces the MCR measure; and ...and under the LAGIC regime, operative from 1 January 2013

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.

 A Common Equity Tier 1 (CET1) target range of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

Based on the Group's position at 31 December 2012, application of the LAGIC proposals would have resulted in a PCA ratio of 1.69, above the targeted range, and a CET1 ratio of 1.07, within the targeted range.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT (LAGIC)	1H13 A\$m
Common Equity Tier 1 capital	2,722
Additional Tier 1 capital	927
Total Tier 1 capital	3,649
Total Tier 2 capital	642
Total regulatory capital	4,291
Prescribed Capital Amount (PCA)	
Total PCA	2,534
PCA multiple	1.69
CET1 multiple	1.07

Interest Bearing Liabilities

The Group's interest bearing liabilities stood at \$1,572m at 31 December 2012, compared to \$1,659m at 30 June 2012. The net reduction reflects two capital management initiatives completed during the half:

- In October 2012 the Group redeemed and re-issued its £157m subordinated exchangeable term note instrument. Amended terms included an extension of the first date at which the notes may be exchanged into IAG ordinary shares, from 14 December 2012 to 13 June 2014, and an increased coupon rate of LIBOR +3.20% (previously LIBOR +1.875%); and
- On 21 November 2012 the Group exercised the issuer call option on its NZ\$100m subordinated note issue and repaid it in full.

	1H12	2H12	1H13
INTEREST BEARING LIABILITIES	A\$m	A\$m	A\$m
Subordinated debt	715	728	658
Reset Preference Shares	350	-	-
Convertible Preference Shares	-	377	377
Reset Exchangeable Securities	550	550	550
Capitalised transaction costs/other	12	4	(13)
Total interest bearing liabilities	1,627	1,659	1,572

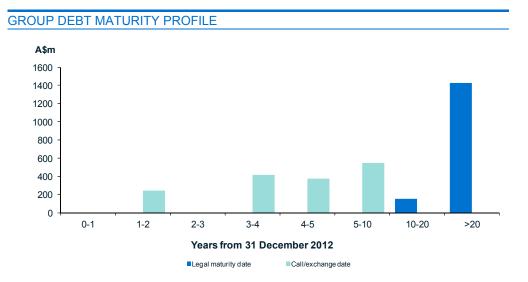
Two capital management initiatives completed in 1H13

	Principal	amount	Yield (net of swaps)		First Call or Exchange	S&P
GROUP DEBT & HYBRID CAPITAL	m. m	A\$m	· %	Rate	date	rating
Subordinated exchangeable term notes ¹	£157	244	3.92%	Variable	Jun-14	'A'
Subordinated fixed rate notes	£100	156	5.63%	Fixed	Dec-16	'A-'
Subordinated fixed rate bonds	NZ\$325	258	7.50%	Fixed	Dec-16	'A-'
Total Debt		658				
Convertible Preference Shares (IAGPA) ²	A\$377	377	4.99%	Variable	May-17	'N/R'
Reset Exchangeable Securities (IANG) ³	A\$550	550	4.97%	Variable	Dec-19	'A-'

¹Stated yield based on margin of LIBOR +3.20%, as amended in October 2012.

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

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



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. IAG targets 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 2012, the Group's capital mix was at the middle of the targeted ranges, with debt and hybrids representing 34.9% of total tangible capitalisation. The reduction since 30 June 2012 reflects the Group's strong operating performance and the repayment of the NZ\$100m subordinated note issue in November 2012.

CAPITAL MIX	1H12 A \$m	2H12 A \$m	1H13 A \$m
Shareholder equity	4,513	4,524	4,768
Intangibles and goodwill	(1,887)	(1,850)	(1,838)
Tangible shareholder equity	2,626	2,674	2,930
Interest bearing liabilities	1,627	1,659	1,572
Total tangible capitalisation	4,253	4,333	4,502
Debt to total tangible capitalisation	38.3%	38.3%	34.9%

Credit Ratings

On 2 January 2013, 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.

Capital mix at mid-point of targeted ranges

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 - CONTINUING OPERATIONS



¹IAG'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.

²IAG holds 98.6% voting rights in Safety Insurance, based in Thailand.

^{3/}IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmG Insurance Berhad (AmG), which trades under the AmAssurance and Kurnia brands

⁴Acquisition of Kurnia Insurans (Malaysia) Berhad by AmG Insurance Berhad completed in September 2012. ⁵IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.

⁶IAG owns 20% of Bohai Property Insurance Company Ltd, based in China. ⁷IAG owns 30% of AAA Assurance Corporation, based in Vietnam.

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.

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 through business partnerships, 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 and AMI brands and indirectly, through insurance brokers and agents, under the NZI brand. Personal lines and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.

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

APPENDIX B IAG SNAPSHOT

ASIA

The Group has interests in five insurance businesses in Asia:

- A controlling economic interest in the merged business of Safety Insurance and NZI in Thailand;
- 49% of AmG Insurance Berhad (AmG), a general insurance joint venture in Malaysia; 26% of SBI General Insurance Company, a general insurance joint venture in India;
- 20% of Bohai Property Insurance Company Ltd, a general insurer based in China; and
- 30% of AAA Assurance Corporation, a general insurer based in Vietnam.

In September 2012, IAG's Malaysian-based associate, AmG, completed the purchase of 100% of Kurnia Insurans (Malaysia) Berhad, a transaction which has resulted in AmG becoming the largest motor insurer in Malaysia.

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 founded in 1903. It provides a diverse 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 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 fair 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.

AMBANK GROUP

With a history stretching back to 1975, the Malaysian-based AmBank Group provides a wide range of financial products and services through various subsidiaries. Its business divisions cover activities across retail banking, business banking, transaction banking, corporate and institutional banking, investment banking including funds management and stockbroking, Islamic banking, general insurance, life assurance and family takaful.

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 Malaysia's largest motor insurer following the purchase of Kurnia Insurans (Malaysia) Berhad in September 2012.







APPENDIX C KEY RELATIONSHIPS

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 nearly 19,000 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 building a portfolio 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 and all its five associate banks for general insurance business.

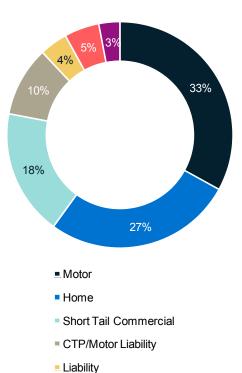
SBI owns 74% of SBI General and IAG 26%. IAG has an option to increase its shareholding to 49%, subject to a change in the Indian foreign direct investment limit.

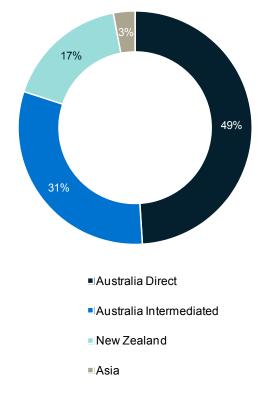


APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY PRODUCT — 1H13

IAG GROUP GWP BY BUSINESS — 1H13

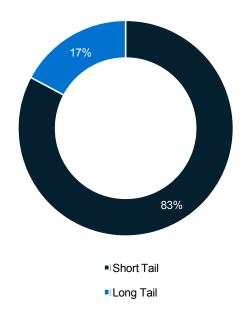


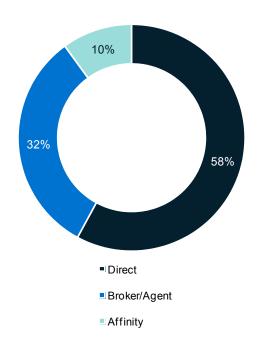


- Other Short Tail
- Workers' Compensation

IAG GROUP GWP BY TAIL — 1H13

IAG GROUP GWP BY CHANNEL — 1H13





APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 30 June 2012 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.

10-JUL-12 IAG ON TRACK TO REALISE SIGNIFICANT GROWTH IN ASIA

IAG provided an update on its Asian operations and the substantial growth opportunities from its regional footprint. After completion of the Kurnia acquisition in Malaysia in the second half of calendar 2012, IAG will have approximately \$720m invested in five Asian countries.

23-AUG-12 IAG DELIVERS ON GUIDANCE AND EXPECTS CONTINUED MOMENTUM IN FY13

IAG announced a 26% increase in insurance profit to \$832m for the year ended 30 June 2012. This equated to an insurance margin of 10.6%, in line with original guidance of 10-12%. The result was achieved on the back of an 11.7% increase in GWP to \$8,992m. Initial guidance was provided for FY13, of GWP growth of 9-11% and an improved insurance margin of 11-13%. IAG's 2012 Annual Report and Annual Review were also released to the market.

31-AUG-12 IAG DIRECTOR RETIRES

IAG announced the retirement of Mr Phillip Colebatch from the IAG Board, after nearly six years as a non-executive director.

3-SEP-12 AMENDED GROUP SECURITY TRADING POLICY

IAG lodged a copy of its amended Group Security Trading Policy in accordance with listing rule 12.10.

4-SEP-12 NOTICE OF ANNUAL GENERAL MEETING

IAG's Notice of Annual General Meeting was released to the market.

21-SEP-12 DIVIDEND REINVESTMENT PLAN PRICING

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at \$4.3299 per share for the dividend payable on 3 October 2012.

27-SEP-12 COMPLETION OF KURNIA INSURANS ACQUISITION

IAG confirmed its Malaysian joint venture, AmG Insurance Berhad, had completed the acquisition of Kurnia Insurans (Malaysia) Berhad following receipt of all required regulatory and shareholder approvals.

23-OCT-12 ANNUAL GENERAL MEETING

IAG advised shareholders at the company's annual general meeting that it was on track to deliver an improved financial outcome in FY13, in line with its previously stated guidance.

26-OCT-12 IAG ANNOUNCES SUBORDINATED DEBT INITIATIVES

IAG announced two changes to its subordinated debt mix, as part of its ongoing capital management programme. These were the repayment in full of its NZ\$100m subordinated note issue on 21 November 2012 and the redemption and re-issue of its £157m subordinated exchangeable loan note on amended terms with immediate effect.

APPENDIX E KEY ASX RELEASES

29-NOV-12 IAG ANNOUNCES BOARD APPOINTMENT

IAG announced that Ms Alison Deans had been appointed to the IAG Board as a non-executive director, with effect from 1 February 2013.

13-DEC-12 IAG ANNOUNCES BOARD CHANGES

IAG announced two changes to the IAG Board. Ms Anna Hynes has decided to retire after five years of service, and Mr Raymond Lim has been appointed as a non-executive director. Both changes are effective 1 February 2013.

14-DEC-12 IAG ANNOUNCES SALE OF UK OPERATIONS

IAG announced the sale of all its UK operations, following completion of the strategic review process announced in May 2012. The Equity Red Star business will be sold to Aquiline Capital Partners for £87m (\$130m), subject to regulatory approval, and an exclusive arrangement has been established with a management-led consortium to buy Independent Commercial Brokers. The Group announced an expected total loss in respect of the UK business of approximately \$240m in FY13.

14-DEC-12 FINANCIAL CALENDAR 2013

IAG provided details of its financial calendar for 2013.

17-DEC-12 IAG ANNOUNCES SALE OF UK SPECIALIST BROKING ARM

IAG announced that the UK-based Independent Commercial Brokers had been sold for £10m (\$15m). It remains IAG's expectation that the total loss in respect of the UK business will be approximately \$240m in FY13.

3-JAN-13 IAG FINALISES 2013 CATASTROPHE REINSURANCE COVER

IAG announced details of its Group catastrophe reinsurance programme for the calendar year commencing 1 January 2013. The programme provides protection of up to \$5bn, compared to \$4.7bn in 2012.

25-JAN-13 RECLASSIFICATION OF FY12 RESULTS – UK OPERATIONS HELD FOR SALE

IAG provided details of the reclassification of its FY12 results, as required by the relevant accounting standard to reflect the changed treatment of the UK business as 'discontinued operations'.

30-JAN-13 EX-TROPICAL CYCLONE OSWALD CLAIMS UPDATE

IAG announced it had received around 5,600 claims arising from the severe weather that impacted Queensland and New South Wales as a result of ex-Tropical Cyclone Oswald.

11-FEB-13 IAG CLAIMS UPDATE

IAG provided an update on the claims arising from ex-Tropical Cyclone Oswald, as well the bushfires in New South Wales, Tasmania and Victoria. Respective estimated net claim costs were \$120-140m and \$35m.

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.

COMMON EQUITY TIER 1 CAPITAL (CET1)

The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date.

CONVERTIBLE PREFERENCE SHARES (CPS)

Convertible Preference Shares were issued by IAG in May 2012 and are quoted as IAGPC on ASX.

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.

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.

LAGIC

APRA's Life and General Insurance Capital (LAGIC) revised regulatory regime, which became operative on 1 January 2013.

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.

NATURAL PERILS Natural peril events include, but are not limited to, storm,

wind, flood, earthquake and bushfire.

NATURAL PERILS ALLOWANCE The natural perils expense forecast to be incurred within a

specified period of time based upon previous experience and management judgement, which is reflected in the pricing of

related insurance products for the same period.

NATURAL PERILS EXPENSE Losses arising from natural perils after deducting any

applicable reinsurance recoveries.

NET CLAIMS EXPENSE Insurance claim losses incurred plus claims handling

expenses, net of recoveries, including those from

reinsurance.

NET EARNED PREMIUM (NEP)

Net earned premium is gross earned premium less

reinsurance expense.

PCA/PCR Prescribed Capital Amount or Prescribed Capital

Requirement, as defined by APRA under its LAGIC regime.

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.

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 were bought back by IAG and their

ASX quotation ceased in June 2012.

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

SHAREHOLDERS' FUNDS

SHORT TAIL

TECHNICAL RESERVES

UNDERLYING MARGIN

UNDERWRITING

UNDERWRITING EXPENSES

UNDERWRITING PROFIT/(LOSS)

UNEARNED PREMIUM

WACC

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.

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

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.

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.

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; and
- Credit spread movements.

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.

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

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

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

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.

Weighted average cost of capital.