THE NEXT STEPS
OUR STORY

Insurance Australia Group
Annual Review 2012
ACCELERATE GROWTH IN AUSTRALIA AND NEW ZEALAND

This year, Australia Direct continued to perform strongly, growing revenue by 10.5% as a result of rate increases to recover higher natural peril and reinsurance costs, as well as volume growth, notably in comprehensive motor.

CGU achieved strong Gross Written Premium (GWP) growth of 12.0%, primarily through rate increases and recent business acquisitions.

A new customer-focused operating model, ‘One CGU’, was launched in March 2012. It will accelerate the performance of the business by increasing efficiency and improving customer service.

We acquired the AMI insurance business in New Zealand, enhancing our position as New Zealand’s leading insurer. IAG's market share for direct home and contents now stands at approximately 55% and for direct motor is approximately 60%.

READ MORE: PAGES 10–14.
THE STEPS WE HAVE TAKEN in our three strategic priorities have helped us achieve profitable growth and stronger returns for our shareholders, solutions for our customers and opportunities for our people. With our iconic brands and passionate people, we are ready to take the next steps towards our ambition to be the world’s most respected group of general insurance companies.

BOOST OUR ASIAN FOOTPRINT – 10% OF GROUP GWP BY 2016

We have made good progress towards boosting our Asian footprint, with acquisitive and organic growth, having finalised a 20% strategic investment in Bohai Property Insurance in China and a 30% strategic interest in AAA Assurance in Vietnam. We are also expanding our presence in Malaysia where our joint venture business, AmG, has entered agreements to acquire Kurnia Insurans Berhad (Malaysia); and our joint venture business in India, SBI General, continues to grow rapidly.


RESTORE PROFITABILITY IN THE UNITED KINGDOM

The performance of the UK business continued to improve in financial year 2012, as the extensive programme of remedial actions began to show benefits in all areas.

READ MORE: PAGES 10–11 AND 15.
INNOVATIVE AND ONE STEP AHEAD

We’re determined to keep moving and be one step ahead of our competitors. That’s why we are the only insurer in Australia to fund our own Research Centre to better understand variables that influence claim costs.

For example, we regularly conduct bumper tests, so we can estimate the likely rear and front end vehicle damage from the high-frequency, low-speed collisions that make up a material proportion of our claims expense. The testing gives us unique pricing insights for certain vehicles based on the design and material used. More broadly, we have used our insight to influence car manufacturers in their design of bumpers and other parts.

We’re not just good at insurance – we’re good at business – as shown by the discipline and patience behind the years of work that have built our Asian portfolio, creating a platform for future growth and profitability for IAG.

Behind each market entry there has been a structured process, from initial market identification, through to partner selection and acquisitions, to capability transfer and consolidation.

Since we began to expand our Asian portfolio in 2006, we have examined 80 opportunities but only concluded five deals, ensuring we make sound investments and select quality joint venture partners.

DISCIPLINED BUSINESS LEADERS

At every interaction we demonstrate our passion for our customers. This was shown after the Christmas Day hailstorm in Melbourne when many of our people gave up their holidays to support our customers who lodged 24,000 claims following the event. One of those who helped was Andrew Scarlis from the NRMA office in Parramatta, Sydney.

When he received a message advising that a major hailstorm had hit Victoria, he immediately left his family and friends to go to work.

“Our National Call Centre was inundated with calls for help and customers were very stressed and anxious and wanted to get the claim process started,” Andrew said.

“We were the first point of call and we wanted to make people feel that we were there providing our support.”
WHAT WE STAND FOR: As a leading general insurer, our purpose is to help people manage risk and recover from the hardship of unexpected loss. We have a proud history of helping our customers in times of need. We insure around 7.7 million cars, 2.9 million homes and 398,000 businesses and deliver a world-class experience built from trusted local brands.

At IAG, our definition of a sustainable business is one which delivers for our shareholders, customers, people and the community by taking a balanced approach. This year, we brought together a range of stakeholders at our inaugural Risk Matters Summit to help us agree a new long term programme of initiatives aimed at reducing risk in the home, on the road, in business and in the natural environment.

SUSTAINABLE, SO WE’RE HERE FOR THE LONG TERM

In March 2012, Amanda Dunn’s home was one of many in the NSW town of Wagga Wagga to be inundated by rising waters. The town was declared a disaster zone as almost 9,000 people were forced from their homes due to the worst flooding in 160 years following the highest rainfall on record. As a customer of NRMA Insurance, when Amanda and her family were forced to drier ground, NRMA Insurance’s emergency assistance provided much needed immediate support in their plight. Read more of their story in the 2012 sustainability report.
CHAIRMAN’S REVIEW

It has been immensely rewarding to see how the steps we have taken this year are creating value for our shareholders, customers, employees and the communities in which we operate. This year we have delivered a result in line with our guidance, despite the headwinds presented by continued extreme weather events and volatile investment markets.

Group revenue for the year, measured as gross written premium (GWP), increased 11.7% to almost $9 billion and our insurance margin improved to 10.6% compared with 9.1% in the prior year.

The Group’s reported net profit after tax declined to $207 million, as a result of the decision to write off all goodwill and intangibles associated with the UK transactions. A true indication of how our business has performed year on year is cash earnings, and for the 2012 financial year, our cash earnings increased 17.5% to $583 million.

The performance of our individual businesses is described in more detail in the Chief Executive Officer’s Review on the next page and on pages 10–15 of this annual review.

FOCUS ON STRATEGY

For the Group as a whole, the year was characterised by an absolute focus on our strategy – by the Board, by management, and people working at all levels of IAG.

We continued to focus on our people, with leadership programmes and succession planning to ensure we have the leaders we need to help us deliver our strategy.

TAKING A LEADERSHIP ROLE

During the year, the Group contributed more broadly to public debate shaping the regulatory landscape in Australia, New Zealand and some of the Asian markets in which we operate. Issues on which we engaged include the role of insurance and mitigation in dealing with natural peril events in Australia; management of the aftermath of earthquakes in New Zealand; and new capital requirements in both these countries.

THE BOARD

During the year, the Board worked closely with management to oversee the implementation of the Group’s strategy, and also considered the issue of board renewal, assessing the optimum mix of directors and skills required to continue to support the strategy.

I thank all my fellow Directors for the counsel and insight they provided throughout the year. Additional information about our Directors and the work carried out by the Board this year is set out in the Directors’ Report within the 2012 annual report.

DIVIDENDS

In line with our Group policy to pay dividends equivalent to approximately 50–70% of reported cash earnings, the Board has determined to pay a fully franked final dividend of 12 cents per share (cps) on 3 October 2012, resulting in an increased full year payout of 17 cps. The Dividend Reinvestment Plan will operate for the final dividend.

CAPITAL STRENGTH

Our capital position remained above our long term benchmark of 1.45 to 1.5 times the amount of capital required by our regulator, the Australian Prudential Regulation Authority (APRA). At 30 June 2012, we held capital equivalent to 1.74 times the minimum requirement.

We have maintained this sound position despite over $400 million of acquisitions completed during the financial year.

OUTLOOK

This year’s result demonstrates the effectiveness of our current management team, guided by our Managing Director and Chief Executive Officer, Mike Wilkins, in rebuilding a solid foundation from which we can pursue profitable growth.

We are well positioned to take the next steps to achieve our strategy, and we believe our success will be reflected in continued improvement in our performance in the 2013 financial year.

BRIAN SCHWARTZ

CHAIRMAN
Last year, I set out the next phase of our strategy: to accelerate profitable growth in Australia and New Zealand, return the UK business to profitability, and boost our Asian footprint. I’m pleased to report we are delivering on all fronts. We have taken clear steps to deliver on our strategy and are building for the future, developing our Asian franchise and securing our position in our home territories of Australia and New Zealand.

Our GWP grew by 11.7% to nearly $9 billion, up from $8.1 billion last year and exceeded our guidance for GWP growth of 8–10%. The result reflects the increase in premiums needed to recover the increased costs of natural perils, including significantly higher reinsurance costs, as well as volume growth in some of our key portfolios.

Our insurance profit increased by 26.1% to $832 million, compared with $660 million last year. This translates into an improved insurance margin of 10.6%, up from 9.1% last year, in line with our guidance of 10–12%.

DEALING WITH NATURAL PERILS
In the first half of the year, we faced Christmas Day hailstorms in Melbourne and extreme floods in Thailand.

These events, following an unprecedented number of natural disasters in 2011, continued to test and challenge our industry and our business. Our ability to perform strongly against this backdrop makes me optimistic about the Group’s future, and even more so about the insurance industry’s place within the community.

The way we rise to meet the challenges presented by these events and support our customers makes me proud of our people and our organisation.

ACCELERATING PROFITABLE GROWTH IN AUSTRALIA AND NEW ZEALAND
It is this passion for customers that helped our businesses in Australia and New Zealand accelerate growth this year.

Australia Direct, our largest business, increased its GWP by 10.5% and achieved a strong insurance margin of 14.3%. It grew its customer base, and the number of policies it issued, by keeping its customers at the centre of everything it does – from pricing, distribution and product development, to the moment of truth at claims time.

Our Australia Intermediated business, CGU, recorded GWP growth of 12.0% and increased its insurance margin to 10.8%. CGU is moving to a new customer-focused operating model with common approaches to account management, underwriting and claims, making it easier for brokers, agents and partners to access our people’s knowledge and expertise.

In New Zealand, our business improved its financial performance after the earthquakes of the prior year, achieving an insurance margin of 10.4%, up from 0.4% last year. This year, we further enhanced our position as the country’s leading insurer by acquiring AMI, one of New Zealand’s most iconic brands, with a proud heritage and strong customer loyalty and retention rates. The transaction takes our overall market share in New Zealand to over 40% and our direct motor market share to around 60%.

RETURNING THE UK BUSINESS TO PROFITABILITY
We made progress towards returning the UK business to profitability this year, enabling us to consider our longer term plans for the business, and the best way to maximise shareholder value.

In light of the challenging economic and industry conditions we continue to see in the local market, we reviewed the carrying value of our UK business, and identified a $297 million writedown of all goodwill and intangible assets as at 30 June 2012. As a result, the Group’s reported net profit after tax declined to $207 million, from $250 million in the 2011 financial year.

In May 2012 we initiated a strategic review of our UK operations with potential outcomes including a continuing focus on improving the business’ performance within the current operating model; refining the business’ strategy to a more focused specialist motor offering; and a sale of all or part of the business. We will announce the outcome of the review before the end of this calendar year.

BOOSTING OUR ASIAN FOOTPRINT
Over the past few years, we have quietly gone about our Asian strategy and are now getting real traction. This year, we acquired a 20% strategic interest in Chinese insurer, Bohai Property Insurance, and a 30% strategic interest in Vietnamese insurer, AAA Assurance. We are also expanding our Malaysian operations with our joint venture business, AmG, announcing the acquisition of Kurnia, which will make it the country’s leading general and motor insurer.

We are entering an exciting phase of our Asian ambitions as we shift from a market entry focus to driving operational performance. Our established businesses in Thailand and Malaysia produced strong underlying results this year, and our Indian joint venture business, SBI General, continued to grow rapidly.

REALISING OUR AMBITION
Our performance in the past year moves us closer to reaching our ambition to be the world’s most respected group of general insurance companies. Realising this ambition means we need to deliver for the benefit of all our stakeholders and we have taken significant steps on all fronts.

For shareholders, we have improved our financial results and delivered a higher dividend. For customers, we have increased our efforts to support the building of more resilient communities. As a leading insurer, we will continue to share the information we have on managing risk and engage with governments and other stakeholders to support a move towards a more comprehensive and sustainable approach to dealing with risk.

For our people, we are creating a Group-wide talent mobility programme to identify and develop our future leaders and ensure they gain diverse experience across our organisation. We are also developing an environment where they can realise their potential and succeed, with an industry-leading parental leave programme in Australia, and refinements to our enterprise agreement which consider various life stages and employees’ changing needs.

OUTLOOK AND GUIDANCE
For the 2013 financial year, we expect to achieve GWP growth in the range of 9–11% and deliver an improved insurance margin in the range of 11–13%. This guidance assumes net losses from natural perils are within our allowance of $640 million for the year; no material movements in investment markets; and reserve releases are 1–2% of net earned premium.

I thank all those who have contributed to our results this year – the Board, our executive team, and all the people at IAG. Our organisation has enormous potential and I am proud of the way we are working together to deliver on that – for our shareholders, our customers, our people and the wider community.
IAG’s portfolio of businesses provides a wide range of general insurance products that help protect the homes, lifestyles, possessions and businesses of millions of customers. We have some of the most well recognised and respected brands in the markets in which we operate.

**PORTFOLIO MIX BY BUSINESS – % OF GWP BY BUSINESS FOR THE YEAR ENDED 30 JUNE 2012**

- Australia Direct 48%
- Australia Intermediated 31%
- New Zealand 13%
- United Kingdom 6%
- Asia 2%

**PORTFOLIO MIX BY PRODUCT – % OF GWP BY PRODUCT FOR THE YEAR ENDED 30 JUNE 2012**

- Motor 34%
- Home 24%
- Short Tail Commercial 19%
- CTP/Motor Liability 11%
- Liability 5%
- Other Short Tail 4%
- Workers’ Compensation 3%

**16.1M**
IAG had more than 16.1 million active risks in force or policies in force.

**$13B**
IAG invests around $13 billion of funds on behalf of our policyholders and shareholders.

**$1,535B**
IAG insures property valued at more than $1,535 billion.

**813,000**
IAG has Australia’s second largest number of shareholders at around 813,000.

**117,099 EMPLOYERS**
IAG paid around $6.5 billion in claims during the year.

**$6.5B**
IAG paid around $6.5 billion in claims during the year.

**2.9M HOMES**
IAG has Australia’s second largest number of shareholders at around 813,000.

**$9B**
IAG sold $8.992 million worth of policies to customers during the year.

**13,650**
IAG employed 13,650 people on a full-time equivalent basis.

**7.7M CARS**
IAG sold 13,650 people on a full-time equivalent basis.

**398,000 BUSINESSES**
IAG has Australia’s second largest number of shareholders at around 813,000.

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**398,000 BUSINESSES**
IAG has Australia’s second largest number of shareholders at around 813,000.
This year, we completed two capital raisings, to provide funds for general corporate purposes and to retire an existing instrument. In December 2011, we finalised a NZ$325 million unsecured subordinated bond offer in New Zealand, and in April 2012 we completed an Australian offer of Convertible Preference Shares, raising $377 million which we used to refinance our $350 million Reset Preference Share issue when it matured in June 2012.

**USING CAPITAL TO CREATE VALUE**

Our capital position has enabled us to fund a number of acquisitions that will create value for shareholders over the medium term – AMI in New Zealand, a 20% stake in Bohai Property Insurance in China and a 30% interest in AAA Assurance in Vietnam – without affecting the financial strength of the organisation.

**REGULATORY CHANGES**

This year has been particularly interesting for capital management, with regulators reviewing capital requirements for insurers in Australia and New Zealand.

APRA’s review of Life and General Insurance Capital (LAGIC) standards requires us to adopt a new method of calculating regulatory capital from January 2013, with a prescribed capital amount (PCA) replacing the current minimum capital requirement (MCR). We will also be required to hold a minimum 60% of our capital in what is now termed Common Equity Tier 1 (CET1).

We have worked closely with APRA as it developed the new requirements, and the overall net impact on the Group is modest. While the Group’s risk appetite remains the same, we have revised our benchmarks to reflect the new standards. Our benchmarks are now to hold total capital of between 1.4 to 1.6 times the PCA, and CET1 capital of 0.9 to 1.1 times the PCA.

The Reserve Bank of New Zealand has revised its Solvency Standard so that, from 31 December 2012, insurers must have earthquake reinsurance for a 1:500 year return period. This will progressively increase to a 1:1,000 year return period requirement by July 2017. Our capital strength and reinsurance programme mean that we already comply with the 2017 requirement.

Our active approach to capital management over the year has ensured our regulatory capital position remains robust, and above our long term benchmark. We are comfortably capitalised under the LAGIC proposals; we have a comprehensive reinsurance programme in place; and our investment portfolio remains conservatively positioned.

**INVESTMENT PORTFOLIO**

At 30 June 2012, our investment portfolio had a value of $13 billion. It comprises two pools: technical reserves of $9.4 billion which support our insurance liabilities, and shareholders’ funds of $3.6 billion. Our overall investment allocation remains conservatively positioned, with 88% of the Group’s total portfolio in fixed interest and cash.
During the 2012 financial year, IAG continued to perform well on the majority of the indicators used to measure its sustainability. Performance details are contained in IAG’s 2012 sustainability report. A summary follows.

**EMBEDDING SUSTAINABLE PRACTICES**

During the year, we became a founding signatory to the Principles of Sustainable Insurance, a global, United Nations-backed initiative. As the only Australian insurer among 34 founding signatories, this demonstrates our commitment to drive continuous improvement in our own operations while fostering a more sustainable insurance industry worldwide. The Principles focus on embedding environmental, social and governance issues into decision-making; raising awareness of these issues; managing risk; and promoting solutions.

IAG continued to rank on key global sustainability indices, including the Dow Jones Sustainability Index, FTSE4Good, Global 100 Most Sustainable Corporations and Carbon Disclosure Leadership Index.

**BUILDING A SUSTAINABLE WORKFORCE**

Ensuring we have the right people in the right roles, with the right capabilities is essential to help address the challenges of the future. During 2012, we piloted a new approach to enhance the way we achieve this, by enabling a greater visibility of our talent base; building a deeper and broader leadership and succession pipeline; and supporting a more mobile workforce.

In addition, a new Enterprise Agreement for employees in Australia became effective during the 2012 financial year, following an overwhelming 89.5% vote in favour. Key improvements include increasing paid parental leave to 14 weeks (up from 12 weeks); and creating a new mid-service leave category to provide people who reach seven, eight and nine years of service with an extra week of paid leave each year.

We introduced a ‘welcome back’ payment for all Australian-based employees who are primary carers and return to work after having a child. IAG now offers one of the most generous parental leave programmes in the Australian financial services industry supporting our focus on diversity at IAG. The number of women in senior management roles increased to 29%, up from 28% last year, putting us on track to achieve our goal of at least 33% by 2015.

Our community partners were available to answer questions and we asked members of the public to complete a quick safety quiz to find out how they rate at home and on the road. The quiz let us give them a rating out of ten and offered some simple tips and hints to improve their safety. Our photo shows Laura Boldizar, Senior Claims Consultant for complex motor claims, at one of the performances.

Our commitment to improve the safety of our work environment led to a reduction of 46.5% in the lost time injury frequency rate for the Australian businesses from 5.7 to 3.05. This reflects a keen focus on improved reporting processes enabling us to understand and address the causes, and better training.

**RESPONDING TO CUSTOMERS**

Our customers’ policies and risks in force remained stable at 16.1 million during the year, and customer retention remained high. This is a pleasing outcome, which reflects our ongoing efforts to ensure we are constantly evolving to meet our customers’ changing needs.

Each business adopts individual methods to measure customers’ loyalty and actively uses the results to improve processes. IAG’s Australia Direct business introduced a significant change to its customer experience survey methodology, with the 2012 financial year marking the first full year of its use. Each business has recorded improvements, but there is still room to do more.

**MAKING COMMUNITIES SAFER**

During the year our businesses invested more than $97.9 million in community programmes and partnerships closely aligned with promoting safety and resilience in the home, on the road, in business and in the natural environment.

Under Australia Direct’s Community Grants programme, almost $747,000 was awarded to 124 groups to help realise their goals to make Australian communities safer. Since the inception of this programme in 2003, more than $5.3 million has been invested into 1,300 projects nationally.

Our sponsorships of partner organisations which share our goal of making communities safer continued during the year, and in Australia, NRMA Insurance entered into a new major partnership with the NSW State Emergency Service.

We formalised a new set of initiatives through the Risk Matters programme. This continues our work in helping to improve the understanding of risk to prevent loss, reduce it, or better insure it.
REDUCING ENVIRONMENTAL RISK
For some years, IAG has advocated the need to develop a resilient built environment to reduce our communities’ vulnerability to natural perils. During the past year we accelerated these efforts. We also continued to reduce our own carbon footprint, in line with our commitment to achieve voluntary carbon neutrality by the end of the 2012 financial year. By focusing on reducing electricity consumption, business travel, vehicle fuel and paper consumption, we are contributing to a more sustainable environment while minimising costs by using fewer resources.
During the past year, excluding new emission sources, CO₂ equivalent emissions were reduced by 6.0%. To achieve carbon neutrality, we purchased 18 months’ worth of carbon offsets, via a carefully selected portfolio of four projects. Each project meets IAG’s strict purchasing criteria and is measurable, transparent and independently audited.

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<th>CO₂ EQUIVALENT (CO₂E) EMISSIONS</th>
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These are the CO₂e emissions for our businesses in Australia, New Zealand, the United Kingdom and Thailand. The 2012 result reflects the inclusion of some new emission sources, including waste in Australia and New Zealand; rental cars in Australia; refrigerants from buildings in Australia; and emissions from the Asia head office in Singapore.

COMMUNITY INVESTMENT ($M)

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<th>2012</th>
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<td>COMMUNITY INVESTMENT</td>
<td>9.7</td>
<td>8.7</td>
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Our community investment measure includes sponsorships, donations and employee volunteer hours across Australian and New Zealand communities.

The steps we are taking will help us realise our ambition to be the world’s most respected group of general insurance companies. Our relentless focus on executing our strategy and delivering a consistent performance is part of this. We believe great strides can also be made by sharing our expertise in risk, because risk matters not only to our business, it matters to our economy, our communities and our way of life.

ENABLING AND PROTECTING TODAY
We have made significant progress and delivered improved results since we reset our strategic priorities. We are taking steps to protect this momentum, through effective governance and risk management, and by ensuring we have the people and capability we need.

We have a robust governance framework that guides our internal monitoring and reporting processes. Our approach to managing risk is outlined in detail in the Corporate Governance report on pages 9–11 of the 2012 annual report.
We also have programmes to identify and develop talented people throughout the organisation, enabling us to harness and leverage skills and expertise. We have succession plans for critical roles and we are building a more mobile workforce to enable us to fulfil our Asian ambitions and offer our people diverse experiences.

SHAPING TOMORROW
However, to achieve our ambition, we must look beyond today for ways to deliver benefits to a range of stakeholders.

As leaders in our industry, we are passionate about helping people manage risk, and recover from the hardship of unexpected loss. Through our Risk Matters programme we are channelling this passion into action.

As foreshadowed in last year’s annual review, we recently brought together representatives from community, government and business groups to work with us to determine which areas of risk we should focus on and the actions we should take to help communities understand, prevent, reduce or better insure the risks they face.

As a result, we are focusing on risks in the home, on the road, in business and in the natural environment and have set as priorities:

- raising awareness of, and providing education about, risks such as fires and poor driver behaviour that affect individuals;
- helping small-to-medium sized businesses identify risk they face and how to reduce these through mitigation and risk management strategies; and
- advocating increased investment in mitigation strategies, including improved data and appropriate building codes, to overcome risks in the environment.

Reducing risk in the community will help keep insurance more affordable and accessible for all.

The series of earthquakes in New Zealand’s Canterbury region from 2010 devastated many properties and the rebuilding process continues. When the clean-up commenced, IAG’s New Zealand business was very mindful that the amount of demolition required would add significantly to claim costs, as well as to landfill.

To minimise this impact, our businesses are working closely with our construction partner, Hawkins, on a large scale recycling programme.

In 2012, Hawkins reduced the volume of demolition waste going to landfill to 18.5%, down from 22% in 2011. This means that, overall, nearly 68,000 tonnes of demolition waste is being recycled, while only 15,300 tonnes of general waste has gone to landfill.
OPERATIONAL PERFORMANCE

PERFORMANCE HIGHLIGHTS

AUSTRALIA DIRECT

Australia Direct is IAG’s largest business and contributed nearly 48% of the Group’s GWP in financial year 2012. Direct insurance products are sold primarily under the NRMA Insurance brand in NSW, ACT, Queensland and Tasmania; SGIO in Western Australia; and SGIC in South Australia. In Victoria, home, motor and other insurance products are distributed through RACV.

AUSTRALIA DIRECT FINANCIAL RESULTS

The Group’s largest business, Australia Direct, reported a 10.5% increase in GWP; assisted by premium increases introduced to recover the higher cost of natural perils, including reinsurance costs, and volume growth, notably in motor. See page 12 for more detail.

GROSS WRITTEN PREMIUM ($M)

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<td></td>
<td>4,299</td>
<td>3,857</td>
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PROFIT BEFORE TAX ($M)

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<td>544</td>
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AUSTRALIA INTERMEDIATED (CGU)

CGU offers commercial, rural and personal insurance products for businesses, farms, individuals and families. Its products are distributed under the CGU and Swann Insurance brands, through a network of over 1,000 insurance brokers and authorised representatives, and over 100 business partners. In financial year 2012, CGU contributed nearly 31% of the Group’s GWP.

AUSTRALIA INTERMEDIATED FINANCIAL RESULTS

The underlying performance of CGU has continued to improve. GWP growth of 12% was driven by a blend of acquired business and rate increases. See page 13 for more detail.

GROSS WRITTEN PREMIUM ($M)

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PROFIT BEFORE TAX ($M)

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<td>269</td>
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NEW ZEALAND

IAG is New Zealand’s largest general insurer, offering most of its products under the State, AMI and NZI brands through a nationwide network of call centres, and more than 100 branches and sales centres. IAG’s New Zealand operations accounted for over 13% of the Group’s GWP in financial year 2012.

NEW ZEALAND FINANCIAL RESULTS

The underlying performance of New Zealand has remained strong, and the reported outcome has shown substantial improvement over the earthquake-affected result for financial year 2011. See page 14 for more detail.

GROSS WRITTEN PREMIUM ($M)

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<td>1,210</td>
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PROFIT BEFORE TAX ($M)

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ASIA

The Group has interests in established businesses in five of its six targeted markets, in Thailand, Malaysia, India, China and Vietnam. IAG’s Asia business accounted for nearly 4% of the Group’s GWP, on a proportional basis, in financial year 2012.

ASIA FINANCIAL RESULTS

The result from Asia was heavily affected by the Thai floods, which cost the Group a net $62 million. On an underlying basis, Thailand continued to perform soundly, while the Malaysian joint venture, AMG, reported a strong insurance margin of over 18%. See page 14 for more detail.

GROSS WRITTEN PREMIUM ($M)

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<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>219</td>
<td>189</td>
<td>185</td>
</tr>
</tbody>
</table>

UNITED KINGDOM

In the UK, IAG has a specialist motor underwriting operation, Equity Red Star, the largest motor syndicate at Lloyd’s, providing insurance to business and personal lines customers. IAG also owns the Equity Insure Australia Partnerships affinity business and the specialist commercial broking operation, Independent Commercial Brokers. The UK accounted for 6% of Group GWP in financial year 2012.

UNITED KINGDOM FINANCIAL RESULTS

The UK business has reported a significantly reduced insurance loss of £13 million, in line with the close to breakeven expectations held. The total divisional result was a loss of £15 million. See page 15 for more detail.

GROSS WRITTEN PREMIUM ($M)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>487</td>
<td>546</td>
<td>717</td>
</tr>
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</table>

LOSS) BEFORE TAX ($M)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>138</td>
<td>179</td>
<td>356</td>
</tr>
</tbody>
</table>
KEY
- Business volume – Risks or policies in force (M)
- Frontline/broker advocacy (%) 
- Staff turnover (%) 
- Community investment – Includes sponsorships, donations and employee volunteer hours ($M)
- Greenhouse gas emissions (Tonnes CO2e)

More information about IAG’s activities to build sustainable businesses and communities, including the greenhouse gas emissions profile, is available in the 2012 sustainability report on www.iag.com.au.

GREENHOUSE GAS EMISSIONS

1. The increase in 2012 greenhouse gas emissions for Australia reflects the inclusion of some new emission sources, including waste, rental cars and refrigerants from buildings.

2. An error was identified in the financial year 2011 air travel calculation. This figure has been restated, resulting in an increase in the greenhouse gas emissions.

3. Consistent levels of greenhouse gas emissions for New Zealand in 2012 reflect ongoing additional air travel undertaken by our people to Christchurch.

4. The increase in 2012 greenhouse gas emissions for Asia reflects the inclusion of emissions from the Asia head office in Singapore.

FRONTLINE/BROKER ADVOCACY

This year, within Australia and New Zealand, a change has been made from a customer satisfaction score to a frontline or broker advocacy measure. The studies are carried out by third parties among IAG customers (direct or intermediated) who have had a recent interaction with IAG. The studies include a question that asks the customers (direct or intermediated) their likelihood of recommending IAG on a scale of 0-10 in Australia and 1-10 in New Zealand. Those who rate the experience as less than six (6), are deemed detractors while those who rate the experience nine (9) or ten (10) are deemed promoters. The advocacy measure is calculated by subtracting the percentage of detractors from the percentage of promoters.

COMBINED AUSTRALIAN NON-FINANCIAL RESULTS

BUSINESS VOLUME (M)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11.6</td>
<td>11.5</td>
<td>11.3</td>
</tr>
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</table>

STAFF TURNOVER (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>17.5</td>
<td>19.0</td>
<td>21.0</td>
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</tbody>
</table>

GREENHOUSE GAS EMISSIONS (TONNES CO2E)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>54.294</td>
<td>55.013</td>
<td>53.175</td>
</tr>
</tbody>
</table>

FRONTLINE ADVOCACY 2012

| 2012 | 44 |

NEW ZEALAND NON-FINANCIAL RESULTS (EXCLUDING AMI)

BUSINESS VOLUME (M)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.1</td>
<td>2.1</td>
<td>2.2</td>
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STAFF TURNOVER (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14.0</td>
<td>14.5</td>
<td>14.8</td>
</tr>
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GREENHOUSE GAS EMISSIONS (TONNES CO2E)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.643</td>
<td>4.795</td>
<td>3.941</td>
</tr>
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</table>

FRONTLINE ADVOCACY 2012

| 2012 | 34 |

STAFF TURNOVER (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15.0</td>
<td>12.8</td>
<td>13.1</td>
</tr>
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</table>

COMMUNITY INVESTMENT ($M)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.0</td>
<td>6.4</td>
<td>6.7</td>
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</tbody>
</table>

ASIA NON-FINANCIAL RESULTS

BUSINESS VOLUME (M)

<table>
<thead>
<tr>
<th>Year</th>
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<th>2011</th>
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<tbody>
<tr>
<td></td>
<td>1.0</td>
<td>0.9</td>
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STAFF TURNOVER (%)

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<tr>
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<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15.0</td>
<td>12.8</td>
<td>13.1</td>
</tr>
</tbody>
</table>

GREENHOUSE GAS EMISSIONS (TONNES CO2E)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.429</td>
<td>2.564</td>
<td>1.955</td>
</tr>
</tbody>
</table>

FRONTLINE ADVOCACY 2012

| 2012 | 31 |

UNITED KINGDOM NON-FINANCIAL RESULTS

BUSINESS VOLUME (M)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.4</td>
<td>1.7</td>
<td>1.8</td>
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</tbody>
</table>

STAFF TURNOVER (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20.3</td>
<td>16.5</td>
<td>19.7</td>
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GREENHOUSE GAS EMISSIONS (TONNES CO2E)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.765</td>
<td>3.013</td>
<td>2.474</td>
</tr>
</tbody>
</table>

FRONTLINE ADVOCACY 2012

| 2012 | 34 |

BROKER ADVOCACY 2012

We do not report on community investment and frontline advocacy for our Asian business.

This is a measure of frontline advocacy for our Australia Direct business only.

A State  B NZI  C Business Partners

We do not report on community investment for our United Kingdom business. Broker advocacy information is contained in the 2012 sustainability report.

STAFF TURNOVER (%) COMMUNITY INVESTMENT (NZ$M)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
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<tbody>
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<td>14.0</td>
<td>14.5</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.4</td>
<td>3.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>
ANDY CORNISH
CHIEF EXECUTIVE OFFICER
AUSTRALIA DIRECT

“Australia Direct continues to contribute materially to the Group’s growth ambitions. We believe that the strength of our business lies in our people and keeping our customers at the centre of everything we do, from pricing, distribution and product development, to the customer’s moment of truth – when they claim. With this philosophy, we will continue to grow.”

RESULTS
In the 2012 financial year, our GWP increased by 10.5% from the prior year to $4,299 million, driven by a combination of rate increases, to recover higher losses from natural perils and increased reinsurance costs, and volume growth, notably in comprehensive motor. Our insurance profit was $544 million, compared to $702 million last year, and our insurance margin was lower at 14.3%. These results were affected by significantly higher reinsurance costs, up nearly 42% or $77 million, an unfavourable net natural peril claims experience and lower reserve releases.

THIS YEAR
Australia Direct performed strongly, despite headwinds from the significant rise in reinsurance costs following the recent spate of natural disasters and continued weather events.

By improving the delivery and coverage of our products, we grew our customer base, as well as the number of policies we issued, showing the success of our strategy of putting the customer at the centre of everything we do.

We have an industry-leading approach to customer insights and we use these to deliver products and services that meet and exceed customers’ needs.

NEXT STEPS
Our businesses are building on their achievements from financial year 2012, and taking the next steps to achieve our strategic priorities of accelerating profitable growth in Australia and New Zealand, boosting our Asian footprint and returning the UK business to profitability.
After the challenges that followed the natural disasters of early 2011, we redesigned our home and caravan products to include flood cover across all of our state-based brands. Our recent advertising campaign, ‘we automatically insure the extras others do not’, highlighted the difference in the products we have developed to meet customers’ needs.

We have significantly improved our website so customers can deal with us when they choose. At the same time, we remain committed to improving our branch network because we believe this complements our digital channels.

We continue to improve our understanding of risk and have enhanced our rating factors so we can better tailor the products we offer to customers.

We rolled out a new repairer relationship model in NSW/ACT which we believe will improve the cost, quality and timeliness of repairs.

Above all, everything we do is underpinned by our people and we recognise the commitment they make to us, and the support they provide to our customers. We have continued to develop our people and nurture their growth through training and learning opportunities, including a wide range of leadership development pathways.

NEXT STEPS
While there is intense competition in the market, we are confident we will continue to perform strongly by providing customers with brands they can trust, and products and services that differentiate us from the competition.

In the year ahead, we remain focused on four sources of profitable growth:

- maximising the relationship with our existing customers;
- attracting new customers through effective marketing, multiple distribution channels and sophisticated pricing;
- product and service innovation; and
- reducing expenses through mutually beneficial partnerships in our repair and supply chain networks.

Importantly, the quality and commitment of our people have enabled these internal changes to take place without compromising our focus on our intermediaries and customers.

We continue to operate in a difficult environment. Higher claims costs driven by natural catastrophes and claims inflation have made it necessary to reprice some portfolios so we can continue to provide cover for the long term.

Natural perils have again created challenges for our business from a claims perspective and we are proud of the way our people have supported customers during events such as the Christmas Day hailstorms in Melbourne, which generated over 5,000 claims.

Over the past year, CGU has also actively worked with governments and community stakeholders to incorporate key learnings from recent natural catastrophes. Initiatives include the introduction of flood cover for all home, contents and landlord policies, and improvements to the claims experience for our customers.

NEXT STEPS
We continue to invest in our people’s leadership and technical capabilities. Technology also remains a focus for CGU, with an emphasis on improving and simplifying systems. A key pillar of this investment is a new claims management system which will be piloted later this calendar year. CGU remains on track to deliver a double digit underlying insurance margin in the 2013 financial year, in line with previous guidance. We remain focused on driving profitable growth in our target markets as we work to realise the benefits of our new operating model.
"IAG’s New Zealand business results reflect a solid performance in a challenging environment. Our acquisition of AMI enhanced our market position and contributed to the Group’s strategy of accelerating profitable growth."

RESULTS
GWP increased 24.4% in local currency terms, led by strong growth in NZI and rate increases across all our businesses to offset higher reinsurance costs. Coupled with a strong underlying claims performance, these factors contributed to an insurance result of $103 million and an insurance margin of 10.4% (up from 0.4% last year).

THIS YEAR
We welcomed AMI into IAG’s New Zealand family of brands, adding nearly 30% to our existing New Zealand premium base on an annualised basis. This strengthens our leading position in a market we know well and demonstrates our commitment to the local community.

We are making good progress on integrating AMI, and expect to generate at least NZ$30 million per annum in pre-tax synergies within two years.

IAG is well positioned to drive improved underlying performance in spite of challenging market conditions that include increased regulatory requirements, higher reinsurance costs and a trebling of the Earthquake Commission levies.

Progress is being made to support Canterbury’s earthquake recovery. Settlement of commercial claims is progressing in line with expectations although residential claims have been slower to finalise owing to work being completed on land zoning, land remediation and repair methodologies – all necessary to ensure a sustainable long term solution for residents. At 30 June 2012, more than NZ$1.3 billion of claim settlements had been paid.

NEXT STEPS
We will continue to improve underlying performance by:

■ strengthening our customer focus;
■ nurturing a constructive culture that supports achievement;
■ ensuring the smooth integration of AMI;
■ transforming our direct insurance business by leveraging the best of both the AMI and State businesses;
■ NZI continuing to take advantage of growth opportunities as customers choose the security of dealing with a well-established company; and
■ continuing to focus on sound underwriting principles, risk selection, claims and pricing disciplines and expense management.

JUSTIN BREHENY
CHIEF EXECUTIVE OFFICER
ASIA

“We are entering an exciting phase of our Asian ambitions as we shift from a market entry focus to one of driving operational performance from our enlarged regional presence.”

RESULTS
Our established businesses continued to perform strongly. In Malaysia, our joint venture business, AmG, further strengthened its insurance margin to 18.1%, up from 13.2% in financial year 2011, on the back of significantly improved claim processes.

In Thailand, our business reported GWP growth of nearly 22% in local currency terms. The reported result included the impact of the catastrophic Thai floods that occurred during the year, which cost the Group a net $62 million. Excluding the impact of the floods, the Thai business performed soundly, and improved its insurance margin to 9.3%.

In our developing high growth markets, SBI General, our joint venture business in India, registered GWP growth of nearly 300% in local currency; while our new ventures in China and Vietnam offer exciting prospects for the future.

THIS YEAR
We made significant progress in our strategy of achieving long term profitable growth in Asia, through a combination of acquisitions and organic growth:

■ we finalised our 20% strategic investment in Bohai Property Insurance in China, giving us access to a network of 265 provincial and sub-branches, with over 3,000 employees;
Our priorities are:

- currently less profitable, but longer term markets to support the still developing, profitable businesses in the established markets.
- the returns from the more mature and developing markets.

This portfolio approach allows us to use the returns from the more mature and profitable businesses in the established markets to support the still developing, currently less profitable, but longer term high potential businesses, in the emerging and developing markets.

**NEXT STEPS**

To achieve long term profitable growth, our priorities are:

- in Vietnam, we acquired a 30% strategic interest in AAA Assurance, the country’s ninth largest general insurer and sixth largest motor insurer; and
- we announced plans to expand our presence in Malaysia by purchasing 100% of Kurnia Insurans (Malaysia), through our Malaysian joint venture, AmG, which will make AmG the top general insurer in the country with 13.5% market share, and the largest motor insurer, with 22% market share – almost double that of its nearest motor rival. We expect this transaction to be completed in the first half of the 2013 financial year.

We are in five of the six priority markets we have identified in Asia, each at differing stages of development, growth and return:

- our established markets of Thailand and Malaysia are well developed and are already producing strong returns;
- the emerging giants of India and China have very strong growth rates; and
- Vietnam is a younger market, with a very low level of insurance penetration and high GDP growth rate.

This portfolio approach allows us to use the returns from the more mature and profitable businesses in the established markets to support the still developing, currently less profitable, but longer term high potential businesses, in the emerging and developing markets.

**Ian Foy**

Chief Executive Officer

**United Kingdom**

“The UK business continues to make positive progress towards restoring profitability. Improvement has been achieved in a number of key areas to steer the business towards breakeven, despite continued tough market conditions.”

**RESULTS**

The full year insurance loss of $13 million for the UK business is a significant improvement on the insurance loss of $181 million last year, and reflects the benefits of the extensive programme of remedial actions begun in 2010. However, the performance of the business continued to be affected by:

- the ongoing issue of bodily injury claim inflation, driven by aggressive claim farming activities and exacerbated by prolonged recessionary economic conditions;
- the time taken to re-establish a number of key broker relationships on a financially mutual basis; and
- the highly competitive nature of the UK motor insurance market.

Despite these factors, the business achieved a close to breakeven result in the 2012 financial year, and a modest full year profit is expected in the 2013 financial year.

**THIS YEAR**

The operating environment for the UK business was extremely challenging with a return to recession, and recovery hampered by the ongoing financial crisis in Europe.

The business experienced a decline in reported GWP for the 2012 financial year, reflecting:

- the impact of the ongoing remediation programme in exiting unprofitable segments and broker relationships; and
- the re-emergence of price-based competition in certain segments, which affected renewal retention and new business volumes.

In this environment, the UK business focused on accelerated recovery initiatives which included improvements to the underwriting portfolio, application of targeted rate increases, and improved claims management and handling, as well as continued development of core capabilities.

Equity Red Star also enhanced its customer offer, introducing some new and enhanced fleet, home and classic car products to the market.

The adverse development covers we acquired in the 2010 and 2011 financial years, in respect of the underwriting years up to and including 31 December 2010, continued to provide considerable reinsurance protection against further deterioration in bodily injury claims.

**NEXT STEPS**

In the 2013 financial year, we will continue to focus on improving our underwriting, pricing and claims handling processes, and seeking efficiency gains across the business.

**STRATEGIC REVIEW**

In May 2012, the Group initiated a strategic review of the UK business, to establish the best way to maximise shareholder value.

We are considering options including a continuing focus on improving the business’ performance within the current operating model; refining the business’ strategy to a more focused specialist motor offering; and a potential sale of all or part of the business.

We expect to announce the outcome of this review before the end of this calendar year.
IAG's board of directors represents and serves the interests of the shareholders and collectively oversees and appraises the strategies, policies and performance of IAG. The board ensures there is a proper governance framework in place to promote and protect IAG's interests for the benefit of its stakeholders.
**EXECUTIVE TEAM**

**MIKE WILKINS**  
BCom, MBA, DLI, FCA, FAICD  
MANAGING DIRECTOR AND CEO  
Mike’s biography appears on page 16, where he is listed as a member of the board.

**JUSTIN BREHENY**  
BEC, CPA, F Fin  
CEO, ASIA  
Justin joined IAG in March 2006 and is responsible for managing IAG’s existing and developing business interests in Thailand, Malaysia, India, China and Vietnam, and expansion into new Asian markets including Indonesia. He has over 18 years’ experience living and working in Asia, and was previously with ANZ Banking Group’s Asian operations.

**ANDY CORNISH**  
MBA  
CEO, AUSTRALIA DIRECT  
Andy joined IAG in January 2009 and leads IAG’s Australia Direct business. He has more than 30 years’ experience in the insurance industry, including several managing director roles with the second-largest general insurer in the UK, RBS Insurance, which is part of The Royal Bank of Scotland Group.

**IAN FOY**  
MA, MBA, FCII  
CEO, UK  
Ian was appointed CEO of IAG’s UK business in September 2010, after seven years with IAG’s New Zealand business, including over two years as CEO. He has worked extensively in the UK and New Zealand, as well as other areas of Europe. This included five years as head of broker business and strategy at NZI, and several roles within Aviva’s insurance business, including director of business operations at NZI and managing director of CGU Bonus in the UK.

**NICK HAWKINS**  
BCom, FCA  
CHIEF FINANCIAL OFFICER  
Nick was appointed IAG’s CFO in July 2008. Since joining the company in 2001, he has held senior positions in the Group, including CEO of IAG’s New Zealand business, head of Asset Management & Group Strategy, and general manager, Group Finance. Before joining IAG, Nick was a partner with the international accounting firm KPMG, where he specialised in working with financial services clients.

**IAN FOY**  
BCom, MBA, FCII  
CEO, UK  
Ian was appointed CEO of IAG’s UK business in September 2010, after seven years with IAG’s New Zealand business, including over two years as CEO. He has worked extensively in the UK and New Zealand, as well as other areas of Europe. This included five years as head of broker business and strategy at NZI, and several roles within Aviva’s insurance business, including director of business operations at NZI and managing director of CGU Bonus in the UK.

**LEONA MURPHY**  
BCom  
CHIEF STRATEGY OFFICER  
Leona joined IAG in January 2009 and leads IAG’s Australia Direct business. He has more than 30 years’ experience in the insurance industry, including several managing director roles with the second-largest general insurer in the UK, RBS Insurance, which is part of The Royal Bank of Scotland Group.

**JACKI JOHNSON**  
BAppSc (OT), EMBA, GradDip Safety Science  
CEO, NEW ZEALAND  
Jacki was appointed CEO of IAG’s New Zealand business in November 2010. She is also a director of Community First Credit Union, a member of the Community First Corporate Governance Committee and president of the Insurance Council of New Zealand. Jacki joined IAG in 2001, and has held several senior positions in both direct and intermediated insurance, including CEO of IAG’s business partnerships division, now part of CGU. She has more than 20 years’ industry experience, including roles with Allianz and HIH Insurance.

**PETER HARMER**  
CEO, CGU  
Peter joined IAG in November 2010 as CEO, CGU. He was previously CEO of Aon Limited UK and a member of Aon’s global executive board, from 2007, and CEO of Aon’s Australian operations for seven years. He has over 30 years’ experience in the insurance industry, including managing director of John C. Lloyd Reinsurance Brokers, chairman and chief executive of Aon Re and chairman of the Lloyd’s Market Reform Group. Peter also held claims and underwriting positions at C.E. Health Underwriting & Insurance and South British United Insurance.

**LEONA MURPHY**  
BCom  
CHIEF STRATEGY OFFICER  
Leona joined IAG’s executive team in 2007 and has responsibility for the Group’s strategy and governance and risk, including corporate strategy, strategic, operational and insurance risk, governance, internal audit, people and culture and enterprise information technology. Previous senior positions within IAG include group executive Corporate Office. Leona has over 20 years’ experience in the insurance industry, including seven years with Promina.

**PETER HARMER**  
CEO, CGU  
Peter joined IAG in November 2010 as CEO, CGU. He was previously CEO of Aon Limited UK and a member of Aon’s global executive board, from 2007, and CEO of Aon’s Australian operations for seven years. He has over 30 years’ experience in the insurance industry, including managing director of John C. Lloyd Reinsurance Brokers, chairman and chief executive of Aon Re and chairman of the Lloyd’s Market Reform Group. Peter also held claims and underwriting positions at C.E. Health Underwriting & Insurance and South British United Insurance.

The executive team manages the effective and efficient operation of the Group and is responsible for executing the Group’s strategy.

Full biographies for executive team members are available at www.iag.com.au/about.
REMUNERATION

These two pages contain extracts from IAG’s 2012 remuneration report, which appears on pages 19–35 of the 2012 annual report.

The format and content of the remuneration report are reviewed each year with a view to presenting information consistently, concisely and in a form that complies with the Corporations Act 2001. In line with stakeholder feedback, this year the Group has continued to provide voluntary disclosure of actual remuneration received by the Group’s Managing Director and Chief Executive Officer (Group CEO) and the executive team. Actual remuneration is provided in addition to the statutory reporting of remuneration to increase transparency about what an executive actually received during the year.

IAG delivered an improved performance for the year ended 30 June 2012, meeting both GWP growth and insurance margin guidance. In line with this performance, the short term incentives (STI) awarded to the Group CEO and the executive team are, on average, higher than last year. Each executive’s STI outcome is closely linked to the financial performance of the Group, as well as to the execution of his or her division’s strategic goals.

In addition the Group CEO and the executive team were rewarded under IAG’s long term incentive (LTI). IAG’s performance against its peer group, all entities within the S&P/ASX100 Index, resulted in the total shareholders’ return (TSR) performance hurdle being met for executive performance rights (EPR) granted in the year ended 30 June 2009. This resulted in 66% of the rights linked to the TSR hurdle vesting. The portion of EPR granted in the same period subject to the return on equity (ROE) hurdle did not result in any vesting as ROE did not meet the required performance level. The EPR granted under the ROE portion will lapse.

The remuneration structure for IAG’s Group CEO and the executive team has not changed over the last year and is summarised below:

<table>
<thead>
<tr>
<th>REMUNERATION COMPONENT</th>
<th>STRATEGIC PURPOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Remuneration</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>Base salary and superannuation</td>
</tr>
<tr>
<td><strong>At Risk Remuneration</strong></td>
<td></td>
</tr>
<tr>
<td>Cash STI</td>
<td>2/3 of STI outcome paid as cash in October</td>
</tr>
<tr>
<td>Deferred STI</td>
<td>1/3 of STI outcome is deferred over a period of two years, subject to ongoing employment conditions</td>
</tr>
<tr>
<td></td>
<td>Provided as grant of rights in the form of deferred award rights</td>
</tr>
<tr>
<td></td>
<td>The actual value of shares will depend on the future share price</td>
</tr>
<tr>
<td></td>
<td>The IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure an appropriate reward outcome</td>
</tr>
<tr>
<td><strong>LTI</strong></td>
<td>Provided as grant of rights in the form of EPR</td>
</tr>
<tr>
<td></td>
<td>3–5 year period</td>
</tr>
<tr>
<td></td>
<td>Subject to performance hurdles of relative TSR and ROE being achieved</td>
</tr>
<tr>
<td></td>
<td>The IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure an appropriate reward outcome</td>
</tr>
</tbody>
</table>

The IAG Board is confident that IAG’s remuneration policies are in line with governance requirements and continue to support the Group’s financial and strategic goals and to attract the right people, which ultimately benefits shareholders, customers, employees and the community.
INDEPENDENT NON-EXECUTIVE DIRECTORS

SHORT TERM EMPLOYMENT BENEFITS

SUPER ANNUATION

RETIREEMENT BENEFITS

POST EMPLOYMENT BENEFITS

OTHER LONG TERM EMPLOYMENT BENEFITS

TERMINATION BENEFITS

SHARE-BASED PAYMENT

TOTAL REMUNERATION

2012
2011

IAG BOARD FEES RECEIVED AS CASH(a)

OTHER BOARDS AND COMMITTEE FEES

$000

$000

$000

$000

$000

$000

$000

$000

$000

$000

Brian Schwartz
523
453
208
24
–
–
–
–
755

Yasmin Allen
166
161
63
16
9
–
–
–
245

Peter Bush
162
89
28
17
9
–
–
–
244

Philip Colebatch
162
156
18
16
–
–
–
–
418

Hugh Fletcher
162
156
109
17
16
–
–
–
210

Anna Hynes
162
156
34
18
–
–
–
–
245

Philip Twyman
165
159
55
50
52
–
–
–
224

This balance included the portion of the company’s superannuation contribution that the Directors elected to receive as cash instead of paying it into their nominated superannuation funds.

2012 REMUNERATION SNAPSHOT

The table below shows the actual remuneration that all current executives received during the financial years ended 30 June 2012 and 2011. This voluntary disclosure includes fixed pay, other benefits and leave accruals, cash STI paid as well as any deferred STI or LTI that vested in the relevant financial year.

<table>
<thead>
<tr>
<th>EXECUTIVES</th>
<th>FIXED PAY</th>
<th>OTHER BENEFITS AND LEAVE ACCRUALS</th>
<th>CASH STI</th>
<th>DEFERRED STI VESTED</th>
<th>LTI VESTED</th>
<th>TOTAL REMUNERATION RECEIVED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Executives (including executive director) who are Key Management Personnel (KMP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mike Wilkins, Managing Director and Chief Executive Officer</td>
<td>1,992</td>
<td>230</td>
<td>1,567</td>
<td>388</td>
<td>746</td>
<td>4,923</td>
</tr>
<tr>
<td>Justin Breheny, Chief Executive Officer, Asia</td>
<td>877</td>
<td>310</td>
<td>587</td>
<td>185</td>
<td>296</td>
<td>2,255</td>
</tr>
<tr>
<td>Andy Cornish, Chief Executive Officer, Australia Direct</td>
<td>990</td>
<td>75</td>
<td>600</td>
<td>154</td>
<td>249</td>
<td>2,068</td>
</tr>
<tr>
<td>Ian Foy, Chief Executive Officer, United Kingdom</td>
<td>698</td>
<td>371</td>
<td>287</td>
<td>105</td>
<td>200</td>
<td>1,661</td>
</tr>
<tr>
<td>Peter Harmer, Chief Executive Officer, Australia (CGU) KMP since 8 November 2010</td>
<td>932</td>
<td>62</td>
<td>504</td>
<td>–</td>
<td>–</td>
<td>1,498</td>
</tr>
<tr>
<td>Nick Hawkins, Chief Financial Officer</td>
<td>956</td>
<td>93</td>
<td>568</td>
<td>160</td>
<td>305</td>
<td>2,082</td>
</tr>
<tr>
<td>Jacki Johnson, Chief Executive Officer, New Zealand</td>
<td>863</td>
<td>124</td>
<td>505</td>
<td>172</td>
<td>296</td>
<td>1,960</td>
</tr>
<tr>
<td>Leona Murphy, Chief Strategy Officer</td>
<td>862</td>
<td>58</td>
<td>512</td>
<td>139</td>
<td>261</td>
<td>1,822</td>
</tr>
</tbody>
</table>

(a) Fixed pay (base salary and superannuation) included an average pay increase of 4.1% effective September 2011.
(b) Changes in other benefits and leave accruals from the prior year were mainly due to:
– annual and long service leave accruals increased for all executives (except for Mr Foy who is not entitled to carry forward accrued leave based on the UK legislation); and
– for those executives located overseas, other benefits in the year ended 30 June 2012 including:
  – Mr Breheny, relocation costs and accommodation of $292,000 relating to his relocation to Singapore;
  – Mr Foy, retention payments of $335,000 (£218,000) and other recurring allowances and benefits of $36,000; and
  – Ms Johnson, accommodation allowances and other benefits of $45,000.

For remuneration details provided in accordance with the Accounting Standards, see page 30 of the remuneration report in the 2012 annual report.
## Five Year Financial Summary

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
<th>2008*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>$8,992</td>
<td>$8,050</td>
<td>$7,782</td>
<td>$7,842</td>
<td>$7,793</td>
</tr>
<tr>
<td>Gross written premium growth</td>
<td>11.7%</td>
<td>3.4%</td>
<td>(0.8)%</td>
<td>0.6%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Premium revenue</td>
<td>$8,577</td>
<td>7,858</td>
<td>7,621</td>
<td>7,718</td>
<td>7,765</td>
</tr>
<tr>
<td>Outward reinsurance premium expense</td>
<td>(734)</td>
<td>(620)</td>
<td>(556)</td>
<td>(485)</td>
<td>(470)</td>
</tr>
<tr>
<td>Net premium revenue</td>
<td>7,843</td>
<td>7,238</td>
<td>7,065</td>
<td>7,233</td>
<td>7,295</td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(5,791)</td>
<td>(5,089)</td>
<td>(5,072)</td>
<td>(5,370)</td>
<td>(5,155)</td>
</tr>
<tr>
<td>Underwriting expenses</td>
<td>(2,144)</td>
<td>(1,978)</td>
<td>(2,054)</td>
<td>(2,128)</td>
<td>(2,180)</td>
</tr>
<tr>
<td>Underwriting profit/(loss)</td>
<td>(92)</td>
<td>(171)</td>
<td>(61)</td>
<td>(265)</td>
<td>(40)</td>
</tr>
<tr>
<td>Net investment income on assets backing insurance liabilities</td>
<td>924</td>
<td>489</td>
<td>554</td>
<td>780</td>
<td>432</td>
</tr>
<tr>
<td>Insurance profit</td>
<td>832</td>
<td>660</td>
<td>493</td>
<td>515</td>
<td>392</td>
</tr>
<tr>
<td>Net investment income from equity holders’ funds**(a)**</td>
<td>89</td>
<td>213</td>
<td>96</td>
<td>(39)</td>
<td>24</td>
</tr>
<tr>
<td>Other income</td>
<td>253</td>
<td>264</td>
<td>256</td>
<td>403</td>
<td>487</td>
</tr>
<tr>
<td>Share of net profit/(loss) of associates</td>
<td>(12)</td>
<td>(8)</td>
<td>3</td>
<td>8</td>
<td>(3)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(97)</td>
<td>(86)</td>
<td>(88)</td>
<td>(87)</td>
<td>(101)</td>
</tr>
<tr>
<td>Corporate and administration expenses</td>
<td>(297)</td>
<td>(259)</td>
<td>(245)</td>
<td>(423)</td>
<td>(528)</td>
</tr>
<tr>
<td>Amortisation expenses and impairment charges of acquired intangible assets and goodwill**(c)**</td>
<td>(325)</td>
<td>(170)</td>
<td>(113)</td>
<td>(65)</td>
<td>(407)</td>
</tr>
<tr>
<td>Profit/(loss) before income tax</td>
<td>443</td>
<td>614</td>
<td>402</td>
<td>312</td>
<td>(136)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(178)</td>
<td>(276)</td>
<td>(212)</td>
<td>(65)</td>
<td>(90)</td>
</tr>
<tr>
<td>Net profit/(loss)</td>
<td>265</td>
<td>338</td>
<td>190</td>
<td>247</td>
<td>(226)</td>
</tr>
<tr>
<td>Net profit attributable to non-controlling interests</td>
<td>(58)</td>
<td>(88)</td>
<td>(99)</td>
<td>(66)</td>
<td>(35)</td>
</tr>
<tr>
<td>Net profit/(loss) attributable to equity holders of Insurance Australia Limited</td>
<td>207</td>
<td>250</td>
<td>91</td>
<td>181</td>
<td>(261)</td>
</tr>
<tr>
<td>Ordinary equity holders’ equity ($ million)</td>
<td>4,343</td>
<td>4,417</td>
<td>4,486</td>
<td>4,671</td>
<td>4,204</td>
</tr>
<tr>
<td>Total assets ($ million)</td>
<td>25,132</td>
<td>23,029</td>
<td>20,442</td>
<td>19,360</td>
<td>19,380</td>
</tr>
</tbody>
</table>

### Key Ratios

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss ratio**(a)**</td>
<td>73.8%</td>
</tr>
<tr>
<td>Expense ratio**(a)**</td>
<td>27.4%</td>
</tr>
<tr>
<td>Combined ratio**(a)**</td>
<td>101.2%</td>
</tr>
<tr>
<td>Insurance margin**(a)**</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

### Share Information

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends per ordinary share – fully franked (cents)</td>
<td>17.00</td>
</tr>
<tr>
<td>Basic earnings per ordinary share (cents)</td>
<td>10.01</td>
</tr>
<tr>
<td>Ordinary share price at 30 June ($) (ASX: IAG)</td>
<td>3.48</td>
</tr>
<tr>
<td>Convertible Preference Share price at 30 June ($) (ASX: IAGPC)</td>
<td>98.10</td>
</tr>
<tr>
<td>Reset Exchangeable Securities price at 30 June ($) (ASX: IANG)</td>
<td>99.30</td>
</tr>
<tr>
<td>Issued ordinary shares (million)</td>
<td>2,079</td>
</tr>
<tr>
<td>Issued convertible preference shares (million)</td>
<td>4</td>
</tr>
<tr>
<td>Market capitalisation (ordinary shares) at 30 June ($)</td>
<td>7,235</td>
</tr>
<tr>
<td>Net tangible asset backing per ordinary share ($)</td>
<td>1.20</td>
</tr>
</tbody>
</table>

---

(a) The financial information for the 2008 year has been reclassified to provide comparable figures for the segment reporting adopted in 2009. This includes reallocation of corporate expenses and reinsurance to the operating divisions.

(b) This included an unrealised gain/(loss) on embedded derivatives of ($96 million) for 2010, $27 million for 2009 and $69 million for 2008.

(c) This included impairment charges for acquired identifiable intangible assets and goodwill of $297 million for 2012, $150 million for 2011, $87 million for 2010, $18 million for 2009 and $342 million for 2008.

(d) The loss ratio refers to the net claims expense as a percentage of net earned premium.

(e) The expense ratio refers to the underwriting expenses as a percentage of net earned premium.

(f) The combined ratio refers to the sum of the loss ratio and expense ratio.

(g) Insurance margin is a ratio of insurance profit over net premium revenue.
# SHAREHOLDER INFORMATION

## KEY DATES

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full year results and dividend announcement</td>
<td>23 August 2012</td>
</tr>
<tr>
<td>Notice of meeting mailing to shareholders commences</td>
<td>4 September 2012</td>
</tr>
<tr>
<td>Final dividend for ordinary shares</td>
<td></td>
</tr>
<tr>
<td>Record date</td>
<td>5 September 2012</td>
</tr>
<tr>
<td>Payment date</td>
<td>3 October 2012</td>
</tr>
<tr>
<td>Annual general meeting</td>
<td>23 October 2012</td>
</tr>
<tr>
<td>Payment date for IAGPC dividend</td>
<td>1 November 2012</td>
</tr>
<tr>
<td>Half year end</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>Half year results announcement</td>
<td>21 February 2013*</td>
</tr>
<tr>
<td>Interim dividend for ordinary shares</td>
<td></td>
</tr>
<tr>
<td>Record date</td>
<td>6 March 2013*</td>
</tr>
<tr>
<td>Payment date</td>
<td>3 April 2013*</td>
</tr>
<tr>
<td>Payment date for IAGPC dividend</td>
<td>1 May 2013</td>
</tr>
<tr>
<td>2013 financial year end</td>
<td>30 June 2013</td>
</tr>
<tr>
<td>Full year results announcement</td>
<td>22 August 2013*</td>
</tr>
</tbody>
</table>

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

## 2012 ANNUAL GENERAL MEETING

IAG’s 2012 annual general meeting will be held on Tuesday, 23 October 2012 at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, commencing at 10.00am. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be mailed to shareholders, and available online at www.iag.com.au from Tuesday, 4 September 2012.

## SUSTAINABLE PAPER CHOICE

Because we are committed to minimising our impact on the environment, this review is printed on Revive Laser recycled paper.

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## MORE INFORMATION IS AVAILABLE ONLINE

Visit IAG’s website at www.iag.com.au to view our 2012 annual report, annual review, financial reports and other important information about IAG, and manage your shareholding online. You can also register on the website to receive email alerts when IAG makes important announcements.

## SHAREHOLDER INFORMATION

**Share registry**
Computershare Investor Services Pty Limited
GPO Box 4709
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(outside Australia) +61 (0)3 9415 4210
Facsimile (general) +61 (0)3 9473 2470
Email iag@computershare.com.au

**Registered office**
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Sydney NSW 2000 Australia
Telephone +61 (0)2 9292 9222
Facsimile +61 (0)2 9292 8072
Email investor.relations@iag.com.au
Website www.iag.com.au

## GLOSSARY

**APRA** is the Australian Prudential Regulation Authority.

**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.

**GROSS WRITTEN PREMIUM (GWP)** is the total amount of insurance premiums that we sold to customers and is our measure for Group revenue.

**INSURANCE MARGIN** represents our insurance profit as a percentage of our net earned premium.

**INSURANCE PROFIT** is our underwriting result plus the investment income on assets backing our technical reserves.

**LIFE AND GENERAL INSURANCE CAPITAL (LAGIC)** is APRA’s revised regulatory capital regime, which comes into effect from 1 January 2013.

**LONG TAIL** classes of insurance are those such as CTP and workers’ compensation where the average period is generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.

**MCR** is the Minimum Capital Requirement as defined by APRA.

**NET EARNED PREMIUM (NEP)** is gross earned premium less reinsurance expense.

**NET PROFIT AFTER TAX** is our net result, after allowing for income taxes and the share of profit owing to non-controlling interests.

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

**SHAREHOLDERS’ FUNDS** is the investment portfolio of assets we hold in excess of the amount backing technical reserves; it represents shareholders’ equity not used in day-to-day operations.

**TECHNICAL RESERVES** are the investments we hold to back the outstanding claims liability and unearned premium, net of recoveries and premium debitors.

**UNDERLYING MARGIN** is defined by IAG 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.
1. RACV is via a distribution relationship and underwriting joint venture with RACV Limited.
2. IAG 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 brand.
4. IAG owns 26% ownership of SBI General Insurance Company, a joint venture with State Bank of India.
5. IAG owns 20% of Bohai Property Insurance Company Ltd, based in China.
6. IAG owns 30% of AAA Assurance Corporation, based in Vietnam.

100% owned unless indicated

1. RACV is via a distribution relationship and underwriting joint venture with RACV Limited.
2. IAG holds 98.6% voting rights in Safety Insurance, based in Thailand.
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