INTERIM REPORT 2011

Insurance Australia Group Limited ABN 60 090 739 923

HOW WE’VE PERFORMED

FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>Six months ended 31 Dec 2009</th>
<th>$m</th>
<th>Six months ended 31 Dec 2010</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>3,863</td>
<td>3,936</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earned premium</td>
<td>3,643</td>
<td>3,710</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(2,335)</td>
<td>(2,359)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underwriting profit</td>
<td>278</td>
<td>321</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income on technical reserves</td>
<td>210</td>
<td>149</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance profit</td>
<td>488</td>
<td>470</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit from free based business/share of associates</td>
<td>11</td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income on shareholders’ funds</td>
<td>91</td>
<td>147</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit attributable to holders of ordinary shares</td>
<td>329</td>
<td>161</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FINANCIAL POSITION

<table>
<thead>
<tr>
<th></th>
<th>As at 30 Jun 2010</th>
<th>$m</th>
<th>As at 31 Dec 2010</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>12,433</td>
<td>12,522</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>5,930</td>
<td>6,407</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill and intangibles</td>
<td>2,083</td>
<td>1,853</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>20,446</td>
<td>20,782</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims provisions and unearned premium</td>
<td>12,460</td>
<td>12,964</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings and other liabilities</td>
<td>3,330</td>
<td>3,160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>15,790</td>
<td>16,124</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets</td>
<td>4,656</td>
<td>4,658</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity attributable to IAG shareholders</td>
<td>4,486</td>
<td>4,551</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>170</td>
<td>147</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>4,656</td>
<td>4,658</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

KEY FIGURES

$3,936m

GROSS WRITTEN PREMIUM

Increased 1.9% compared with the previous first half. After allowing for foreign currency movements, underlying gross written premium grew 3.2%.

12.7%

INSURANCE MARGIN

Compared to 13.4% in the first half of last year, reflecting a strong collective performance from the Australian and New Zealand businesses, offset by a greater than expected loss from the UK operation.

$161m

NET PROFIT AFTER TAX

Declined from $329 million in the first half of last year because of an impairment of UK goodwill and intangibles of $150 million and the non-recognition of tax benefits in the UK.

9.0cps

DIVIDEND

An increase on the last interim dividend of 8.5cps, fully franked. The dividend will be paid on 11 April 2011 to shareholders registered on 9 March 2011.

USEFUL INFO

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ONLINE INFORMATION
To view other information about IAG and to manage your shareholding online, visit www.iag.com.au
You can also register to receive email news alerts when IAG makes important announcements.
A SOLID PLATFORM

The strong performance of our largest businesses in Australia and New Zealand provides us with a solid platform from which we will continue to pursue our goals of ongoing improvement in our home markets, restoring profitability in the UK, and realising growth opportunities in our chosen markets, particularly Asia.

IAG reported an insurance profit of $470 million for the six months to 31 December 2010, compared with $488 million in the previous corresponding period. This represented an insurance margin of 12.7%.

Our Australian and New Zealand businesses, which now account for more than 90% of the Group’s gross written premium, performed strongly during the first half, achieving ongoing benefits from improved underwriting disciplines and expense management.

Collectively, these businesses delivered pleasing underlying gross written premium growth of 6.3% compared with the previous corresponding period, and produced an insurance margin of 17.6%, up from 14.4%.

The period featured significant natural peril activity—including the Christchurch earthquake in September 2010—however, associated claim costs were lowered by reinsurance protection.

The results achieved in our home markets demonstrate the effectiveness of the operational improvements we have been making over the past two years. Despite this strong local performance, the Group’s insurance result was adversely affected by a greater than expected insurance loss of $121 million from the UK operation.

Although we made progress in remediating our UK operation during the period, bodily injury claim inflation continued to affect the local industry, and exceeded our previously held expectations. Rate increases in UK non-private motor classes are also taking longer to achieve than we originally anticipated.

In addition, we incurred $11 million of natural peril claim costs related to the harsh UK winter weather.

The Group’s net profit after tax was $161 million for the first half of the 2011 financial year, compared with a $520 million profit in the prior corresponding period, with the decline due to an impairment of UK goodwill and intangibles of $150 million and the non-recognition of tax benefits for the UK operating losses.

Our revenue—measured as gross written premium—increased by 1.5% compared with the previous first half. When the effect of foreign exchange movements is removed, our underlying gross written premium grew 3.2%.

Key operating highlights for the first half were:
- Continued strong performance from our Australia Direct business, which achieved premium growth of 7.9% and an increased insurance margin of 19.4%.
- A return to top line growth for our Australia Intermediated business, CGU, and a continued improvement in its underlying performance, resulting in an insurance margin of 14.3%.
- A strong performance from our New Zealand operation, which improved its insurance margin to 19.8% and
- A good performance in our established businesses in Asia—in Thailand and Malaysia—and further progress in our strategy to access high growth markets in Asia, with the full launch of our Indian joint venture expected in the second half of this financial year.

CAPITAL AND DIVIDEND

IAG’s cash return on equity was 16%, compared to the Group’s long term target of 15%.

We continue to maintain a very strong balance sheet and regulatory capital position.

The Board has determined to pay an interim dividend of 9.0 cents per share (cps), fully franked, up from 8.5 cps in the first half last year. The dividend will be paid on 11 April 2011, to shareholders registered on 9 March 2011.

OUTLOOK

For the second half of the financial year, we will continue to focus on delivering a strong underlying performance in our largest businesses in Australia and New Zealand, work towards restoring profitability in the UK, and pursue growth opportunities in our chosen markets, particularly Asia.

We expect to deliver a full year insurance margin in the range of 8%-10% and gross written premium growth of 3%-5%.

This guidance assumes our Australian and New Zealand businesses continue to perform well, while our UK operation is expected to report a second half loss, albeit at a lower level than in the first half. We have also factored in natural peril claim costs for the full year of $540 million, reflecting the extreme events experienced in January and February 2011, including a second major earthquake in Christchurch.

In addition, full year net reserve releases are not expected to exceed last year’s.

Despite the significant natural peril claim costs incurred to date this calendar year, and the fact it is taking longer than originally anticipated to restore profitability to our UK operation, we have a solid platform for the Group, particularly in our Australian and New Zealand businesses, from which we will continue to pursue our goals. This gives us confidence that the Group will deliver improved results this financial year and beyond.

Michael Wilkins | Managing Director

and Chief Executive Officer

Brian Schwartz | Chairman

SEVERE NATURAL PERILS AND INSURANCE

In addition to the significant natural peril activity in the period, severe storms and flooding have affected vast areas of Queensland, Northern NSW and Victoria; a category five cyclone struck northern Queensland; Melbourne was hit by additional severe storms; bushfires affected Perth; and a second devastating earthquake occurred in Christchurch.

All these events have caused enormous and widespread damage and the rebuilding efforts are far from over.

They have also contributed to an increase in estimated net natural peril claim costs for IAG, bringing our full year estimate to around $540 million.

While this is an unusual concentration of significant events in a short period of time, the Group’s long heritage in responding to such events means we have the operational procedures to focus on assisting our customers as quickly as possible.

We are mindful that some of these events have focused attention on the complex issue of flood insurance, which is not universally offered by insurers. This is because flood risks represent a different type of risk to other natural perils.

As flood maps for many geographical areas are not available, it is difficult to factor the risk of flood into home insurance premiums, and those homes in known flood areas must necessarily have higher premiums to cover the risk.

Michael Wilkins | Managing Director

and Chief Executive Officer

IAG’s businesses offer flood cover in some areas—such as our NRMA insurance unit in South Australia and Queensland. Christchurch. In addition, full year net reserve releases are not expected to exceed last year’s.

The Board has determined to pay an interim dividend of 9.0 cents per share (cps), fully franked, up from 8.5 cps in the first half last year. The dividend will be paid on 11 April 2011, to shareholders registered on 9 March 2011.