

CREATING A SUSTAINABLE BUSINESS AND COMMUNITY

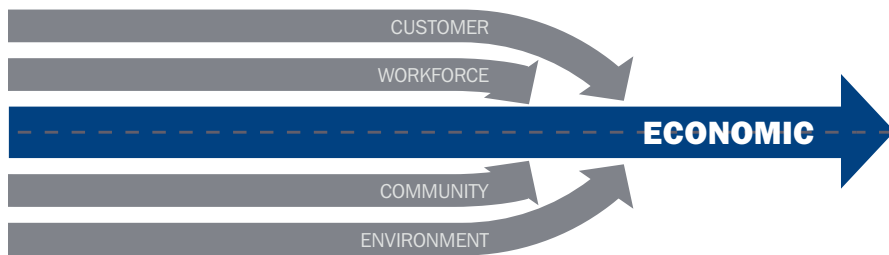
BUSINESS SUSTAINABILITY

FY11 PERFORMANCE

A MESSAGE FROM OUR CEO

Our commitment to building a sustainable business informs everything that we do, to ensure that we can fulfil our purpose to help people manage risk and recover from the hardship of unexpected loss.

For many years, IAG has recognised that building a profitable business means building a business that can remain successful for the long term. To achieve this, we have focused five key inter-connected levers that we have identified as central to our on-going success:



- **Customer** – being the insurer of choice through innovative products and a high standard of service, and being there at claims time to honour the promise we make when we sell a policy;
- **Workforce** – having an engaged workforce with the right people in the right roles today, and developing talent for the future;
- **Community** – engaging with the communities in which we operate to help them reduce and manage their risks and to increase their resilience;
- **Environment** – managing our impact on the environment, and helping customers and the community prepare for a world in which severe weather events may become increasingly common; and
- **Economic** – delivering value for our shareholders through strong and consistent financial performance. Central to this is maintaining a strong capital and investment position, and using our risk expertise to appropriately identify and manage risk.

Each of these perspectives is embedded in our corporate strategy, which ensures that we are actively managing them and that they are present in every decision that we make.

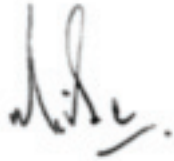
We are conscious of our stakeholders' expectations of us and want to keep building on how we drive sustainable outcomes for our business and the communities in which we operate. As an insurer, the core of our expertise is risk management therefore we want to leverage this capability by sharing more of this knowledge with our customers and communities so that they can better identify, prevent and adapt to the risks that they face.

Such an approach not only benefits our customers and the community in which we operate, but is clearly in the Group's and our stakeholders' long term interests. Taking a proactive approach to shaping the factors that impact our business is critical to our sustainability, this is directly in line with our purpose and is a key driver towards our long term ambition to be the world's most respected group of general insurance companies.

During this next phase of our development, we will continue to build our focus on sustainability through the effective management of community risk across the three pillars of risk prevention, adaptation and resilience, and insurance reach.

In our sustainability report, you'll find information on our approach to business sustainability, a discussion of the issues that matter most to our stakeholders, and commentary on how we've performed during the year.

We welcome your feedback (e-mail: sustainability@iag.com.au) or I also invite you to go to our website and complete a short survey on our on-line content.



MIKE WILKINS
MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER

ABOUT THIS REPORT

Our approach to reporting

We aim to ensure that the content of our reporting presents the information our stakeholders consider to be relevant and material to our business.

The readers of this sustainability report represent a range of stakeholders, from individuals to businesses and community groups. We recognise that not all of our stakeholders will use this report. Consequently, we engage with our stakeholders in many different ways, on an on-going basis throughout the year. For details on who our stakeholders are, and how we engage with them, please refer to our website. Operating in a devolved model also means that there will be some topics that are relevant at a divisional level that are not considered material at a Group level. In this report, we will focus on Group level topics and aim to share both Group and divisional perspectives as relevant.

To ensure that we address the relevant topics, each of our divisions is responsible for bringing forward the topics and opportunities that have been identified through the stakeholder engagement processes that impact them. Our governance mechanisms (for example, our risk management framework) help inform this process. Together with the stakeholder feedback we receive, we are able to gather a view of the key issues that matter to our stakeholders. Using these governance frameworks, we are also able to prioritise issues and opportunities, with responsibility and accountability assigned for the development of action plans and responses. Our response will depend on the specific issue, ranging from us making a change to our strategy to responding directly to a stakeholder on a particular issue.

To ensure that we address the right issues in the right depth in our sustainability report, we prioritise issues based on an assessment of the importance to stakeholders and business impact. The importance to stakeholders considers the level of interest or concern in the topic. Business impact considers the topic in the context of our financial performance, our strategy, the extent of regulations and those topics that have been identified by our peers and industry groups.

Holding ourselves accountable

Stakeholder engagement remains a strategic priority in our corporate strategy. We are committed to the AA1000 AccountAbility Principles and for the fourth year running we have chosen to have our alignment to these principles assured against the AA1000 AccountAbility Principles Standard (AA1000 APS), which considers inclusivity, materiality and responsiveness with regard to stakeholder engagement. The standard holds companies to account for their management, performance and reporting of issues. It also ensures that we report transparently on the impacts of our operations, decisions, actions, products and performance. Importantly, the standard asks companies to engage with stakeholders and be accountable to them. For IAG, this means proactively engaging with those key stakeholders that we have an impact on and who affect us, on issues that are of importance to both us and them, and being flexible in the way we respond.

While IAG is broadly aligned with the principles of AA1000 APS, there are opportunities for improvement to ensure that the principles are consistently applied across our devolved operating model. Currently:

- There is a challenge in ensuring that key stakeholder feedback is captured and fed through the appropriate internal channels;
- Responsibility for stakeholder engagement processes has been devolved however, we do not have in place minimum standards for stakeholder engagement across the Group;
- Currently, we rely on internal channels of communication to ensure that any conflicts between stakeholders are identified and resolved. There is an opportunity to formalise and prioritise how we respond to conflicts between stakeholders; and

- IAG utilises a balanced scorecard approach that measures performance over key material issues. In the coming year and over the longer term, we will focus on better aligning the key performance metrics within this sustainability reporting process with those metrics included in the balanced scorecard.

We also continue to use the Global Reporting Initiative (GRI) sustainability guidelines (including the financial services sector supplement) to inform our reporting. A GRI index that details the location of each of the standard disclosures can be found on our website. Our corporate strategy, Group performance during the year, key events and risks and opportunities identified through our Risk Management framework also inform our reporting.

Scope of this report

The 2011 'creating a sustainable business and community' report comprises the information on our website on the sustainability pages, together with an overview that is included in the IAG 2011 Annual Review. Further information about IAG is included on the 'About IAG' and 'Our business' sections of our website. The report outlines our approach to developing a sustainable business, goals and performance for the year to 30 June 2011 and includes qualitative and quantitative information. Quantitative information is provided for our Australian, New Zealand, United Kingdom and Thai businesses whilst qualitative commentary is provided for all of our operations, including joint ventures, as appropriate.

Assurance

KPMG have provided a limited assurance report on:

- Insurance Australia Group Limited's (IAG) description of its alignment with AccountAbility Principles Standard (AA1000APS) as presented on IAG's website on the "About this report" page under the section "Business Sustainability" for the year ended 30 June 2011; and
- sustainability indicators as presented on IAG's website in the "Data Summary" table under the section "Business Sustainability" for the year ended 30 June 2011.

GETTING TO THE HEART OF THE ISSUES THAT MATTER

Last year, we committed to review the sustainability reporting suite to ensure that our reporting reflects our devolved operations and provides our stakeholders with the most relevant and useful information. As a result, this year’s review focuses on the topics that we have identified as material to both our business and our stakeholders. The issues that matter are grouped into three categories: our purpose, the fundamentals of our business and IAG’s broader environment.



Topics Included in this Year’s Report

- Responding to Customer Loss
- Supply chain
- Customer feedback
- Product and pricing development
- Affordability of insurance
- Community partnerships
- Capital management, investment portfolio and reinsurance
- Governance and accountability
- Efficiently managing our resources, including our carbon footprint
- High performing people to help us realise our purpose
- Regulation and the political landscape
- Claims deterioration in the UK motor insurance market
- Weather events

Our core purpose is to help people manage risk and recover from the hardship of unexpected loss. At IAG, we are passionate about honouring the contract our customers have with us and helping them get their lives back together. This passion comes through the way our staff interact with customers and through some of the processes we have in place to be first on the ground. Critical to our ability to respond is our supply chain - the way we come together with repairers, builders and other providers to deliver quality services to our customers.

Obtaining feedback from customers is vital to our ability to stay relevant and continually improve what we do. We believe insurance should be affordable and everyone should have access to insurance, a belief that guides our offering and the way we partner with a broad range of stakeholders.

Community partnerships are also important to us as we seek to make a difference in our communities, providing funding and on the ground support to mitigate and adapt to risks.

In order to support our customers for the long term, we need to excel at the fundamentals: Capital Management, including investments and re-insurance, corporate governance, attracting and retaining high performance people.

At IAG, we are also focused on being responsible and efficiently managing our resources, including actively reducing our carbon footprint. It all makes good business sense as efficiently managing our resources is one of the ways we can offer competitive premiums.

Our role is also to tackle broader industry issues including insurance regulation and weather events.

OUR PURPOSE

Responding to customer loss

The past 12 months provided floods, bushfires, cyclones and hailstorms that have caused a tragic loss of life and destruction of property.

At IAG, our purpose is clear: to help people manage risk and recover from the hardship of unexpected loss. Our purpose goes to the core of what we are here to do as an insurance company. To provide some context, in Australia alone the private insurance industry injects \$20bn in claims payments annually and in FY11 IAG paid out \$6bn in claims to customers in their time of need. In general, over 98% of Australian insurance claims are paid without dispute, according to figures provided by the Financial Ombudsman Service.

To ensure we are here to assist our customers in the long term, we must take a compassionate but responsible approach to paying claims.

For example, payouts for an event, such as flood, for which insurers have not collected premiums, present a solvency issue and endangers the cover of customers who pay premiums for other risks and justifiably expect their insurer to be able to cover these.

IAG businesses work hard to ensure we can meet our customers' needs and help them get back on their feet when they need to make a claim. IAG's operating businesses all have their own systems to ensure the best possible response when our customers need us.

Whilst responding to claims is part of our day to day business, we are most put to the test when a major event occurs. Clearly when this happens, we will receive a large number of claims in a very short period of time. How we manage this is critical; we take the approach of prioritising customer claims based on the critical nature of the situation, to ensure that those most in need receive the help they require. For example, if a customer has lost their roof entirely they will be treated with the highest priority.

To help us manage major events, our businesses operate major event plans that divert extra resources to key contact centres or on the ground as needed. For example, our Direct Insurance business that operates

under the NRMA, SGIC and SGIO brands, deploys its Major Event Rapid Response Vehicles (MERRVs), allowing Direct Insurance staff to be on the ground to provide practical help to our customers. The MERRVs include caravans that operate as mobile offices and satellite capabilities, which can be deployed to the site of a disaster to ensure customers can benefit from access to our systems.

In our intermediated business, CGU's on the ground response team, made up of rotating CGU volunteers with the required skill sets, was in North Queensland within 48 hours of the passing of Cyclone Yasi. The team was on hand to talk to customers and intermediaries, lodge claims and separate the critical from the not so urgent. Immediate payments were made into customers' accounts if they had lost everything.

Following the New Zealand earthquakes, mobile claims centres were set up in camper vans to enable staff to answer customers' questions and lodge claims (even helping customers of other insurers), as well as hand out water and food.

We are always looking for ways to help our customers make their claims as quickly as possible so that we can help them get back on their feet. In our Direct Insurance business, an emergency on-line claims lodgement facility has been developed to help customers lodge claims in a manner most convenient to them.



Supply chain

Our suppliers are crucial to our ability to help customers recover after a claim, by providing smash repairs, building services, whitegoods, medical treatment, and a range of other services. To be sustainable and successful, we need to make sure we are

working with the right people externally as well as internally.

We take a partnership approach to these relationships, managing contractors to ensure they are readily available when our customers need them. This means we can anticipate issues before they occur and address them quickly if they do. For example if we identify an issue with a vehicle repair, we work closely with the repairer to have the issue rectified and ensure they understand our quality standards for the future. Our Direct Insurance brands report the results of our vehicle repair quality inspections each month on their websites.

We also work closely with repairers after major events like hailstorms. We send customers with damaged motor vehicles to specialist hail repairers to determine whether their vehicle is suitable for paintless dent repair. This form of repair allows customers to have their vehicles repaired more quickly and at a lower cost. It also has an environmental benefit as panels are more likely to be repaired than replaced, and painting is not required. The average time for a vehicle to be repaired using paintless dent repair is now a matter of days, instead of weeks for a conventional repair.

There is always opportunity to take these relationships further and realise more benefit, such as we have been doing in our Direct Insurance business in Australia. In September 2010 Direct Insurance launched EcoSmash, in conjunction with the NSW Office of Environment and Heritage (OEH). EcoSmash (www.ecosmash.com.au) is an interactive workshop and program that gives smash repairers information on environmental compliance, as well as advice on ways they can save money by eliminating waste and reducing energy and water consumption. It has an on-line self assessment tool and makes provision for smash repairers to have their business professionally audited by an environmental consultant. Some of the objectives of EcoSmash include helping smash repairers improve their environmental practices beyond basic regulatory regulations and helping in the management and reduction of costs for repairers, which should be reflected in the containment of claims costs.

IAG's relationships with suppliers help us deliver on our purpose. However, we need to ensure that we have met our customers' expectations, so feedback from them is vital.

Customer feedback

Customers are at the centre of everything that we do.

We have been actively introducing new methods to gain customer insights, segmenting our customer base and introducing consistent ways to measure customer satisfaction at every touch point, when customers purchase products, lodge claims and through broker surveys. The focus is then on using and responding to this information.

We create the most value when we are close to our customers and IAG's devolved structure provides autonomy and accountability to our operating businesses, ensuring decision making is as close to the end customer as possible. The businesses have complete control over the levers needed to execute their strategies and manage performance within IAG's overall framework.

IAG's Direct Insurance business has introduced a significant change to its customer experience survey methodology to enable more immediate and more meaningful access to customer feedback to use in service improvement. It involves surveying customers, interacting across customer touch-points immediately after purchasing, amending or claiming on their policy, recognising that customer experience plays a significant part of a customer's advocacy for an organisation. This approach provides us with a customer advocacy score.

The new survey methodology enables near real-time measurement of performance, as seen by customers, and gives visibility of operational issues that might otherwise take months to emerge. Data is collected and reported monthly following a customer interaction and supplied directly to front line management via an intranet portal to enable service improvement initiatives to be identified, implemented, and measured by the business.

The approach began to be implemented in IAG's Direct Insurance business in July 2010 and complements the customer satisfaction data that IAG continues to report annually. Customer advocacy will be reported in future years, once it has been fully rolled out.

Our Australian intermediated business, CGU, derives the majority of its gross written premium through its network of over 10,000 authorised representatives and brokers. CGU depends upon relationship-based account management which includes both formal and informal feedback channels, keeping the business informed of the issues that matter most.

Our New Zealand business has improved its customer satisfaction through recent initiatives dealing with:

- proactive responses to customers;
- communicating with customers via text messaging;
- proactive claims handling;
- additional training for customer-facing employees; and
- other customer communications activities.

Whether it's an individual, a corporation, or a broker, in Australia, New Zealand, Asia or the UK, our focus is on helping our customers manage their risks. It is only by listening to our customers that we're able to stay relevant and tailor our products and services to meet our customers' needs.

Product and pricing development

Our success as an insurer relies on us offering our customers products that meet their needs. Developing and modifying products and pricing them is a complex process, which is often underestimated.

It is critical that we price the risk that we are covering appropriately. There is therefore a lead time in product development due to the level of understanding that insurance companies need to obtain about a specific risk before it can be priced. These challenges are only exacerbated by the size and complexity of some of the emerging risks that we are facing. Over time, insurer pricing has become more granular and dynamic, enabling us to correctly understand and price risks.

Our approach to new product development means that the pricing must be sustainable; that is, enable us to charge an appropriate level of premium such that where risk becomes a reality, we are able to fulfil our

commitment to make a claim payment. Moving quickly to fill a gap in the market without adequate information to price the risk has the potential to create an unstable and unsustainable pricing structure, which will ultimately disadvantage customers.

We price our insurance products by taking into account both the cost of the risks that we are insuring, and the customer and market dynamics. IAG's businesses follow defined procedures to consider all relevant pricing impacts, including the likelihood of risk, costs of reinsurance, market conditions, return on capital requirements, the level of competition, and customer feedback.

Sometimes, a particular risk may incur a higher premium, potentially placing insurance out of the reach of customers. IAG looks at ways to continue to price its insurance products so they can still be affordable. For example, car insurance products offer flexible excesses to enable customers to determine the premium they are prepared to pay based on the level of excess they select.

The level of insurance penetration plays a role in the broader economy since insurance removes a substantial burden from government and taxpayers – freeing up funds to be dedicated to essential public services. Consequently, it is important that insurance is an available and affordable option for those wishing to manage their risks.

Affordability of insurance

Noninsurance and underinsurance continue to be a challenge. We believe that the transfer of risk through access to insurance should be an option for everyone who needs it, so in considering insurance reach, we need to understand why people may not purchase insurance, or purchase insufficient insurance.

The most common explanation householders give for why their possessions are not covered by contents insurance relates to the cost of premiums. Only 45% of householders who rent their home indicate they have contents insurance¹. According to Insurance Council of Australia figures, approximately 23% of Australian households have no home or contents insurance². This is evidenced by

1 Getting home insurance right – A report on home building underinsurance, September 2005. http://www.iag.com.au/news/gov_submissions/docs/20010611a.pdf

2 Insurance Council commissioned the study “The Non-insured: Who, Why and Trends” into non insurance by Dr Richard Tooth and Dr George Barker of the Centre for Law and Economics at the Australian National University to add to the body of knowledge on non insurance in the Australian community.

clear and consistent numbers of uninsureds after each disaster. Some 26% of all small to medium sized enterprises (SMEs) do not have any form of general insurance, with sole traders having the highest rate of non-insurance – 40% operate their business with no general insurance³. It is likely that an even larger number are underinsured.

IAG can respond to this on several levels. Firstly, we can look at products that might encourage people or businesses to take out insurance. For example, State Insurance in New Zealand responded to a gap in the market by introducing its Favourite Things product in August 2010. This policy allows customers to insure specific items. It helps customers safeguard what's of value to them, like their TV, laptop, mobile phone, camera, and music equipment, and lets consumers choose the level of cover they take out. Previously, these customers may not have been able to take out insurance, for example, if they lived with multiple flatmates. Interestingly, 60% of customers taking out this insurance in the first eight months of its availability are under the age of 30.

In India, SBI General, IAG's joint venture with the State Bank of India, is developing a composite micro insurance product as a result of a survey conducted by SBI Life. Micro insurance is typically characterised by a low premium and low coverage limit. The product is a combination of SBI Life and SBI General insurance covers and will be available to India's rural population. It is designed to cover loss of life and disability due to an accident as a compulsory cover but also provides optional covers for hospital, a critical illness, and asset insurance. The product is now in the process of gaining regulatory approval. Once approved, the product will be launched initially in a few selected districts on a pilot basis and based on the results from the pilot and feedback, may be extended to other locations. SBI General sees this is an important part of growing into a sustainable organisation in India serving the needs of the broader community.

We can also encourage customers to check their level of insurance cover and engage with us on a more regular basis, rather than just at sales and claims time. For example, our NRMA, SGIC and SGIO brands have a

Home Insurance Calculator on their website (<http://www.nrma.com.au/home-insurance/calculators.shtml>) which is intended to help ensure our customers are adequately covered for any loss should it occur, whilst our CGU brand provides guidance on things that might affect the level of cover a customer has at <http://www.cgu.com.au/cgu/news-media/news/Pages/Have-you-reviewed-your-home-and-contents-insurance-lately.aspx>.

In New Zealand, our NZI brand that recently conducted a program to encourage customers to check that their insurance covers the value of their contents by offering to increase of contents insured without charge until their policy is due for renewal. State Insurance in New Zealand also ran a campaign during FY11 with customers with comprehensive contents insurance who did not change the sum insured over their last two renewals, encouraging them to re-check the value of contents insured with a Content Quick Check sheet.

As well as research and listening to our customers, IAG also works with governments to make insurance more affordable.

Tax is a major contributor to the cost of insurance policies in Australia and Australians pay more tax on their insurance than just about any other nation – about \$4.25 billion in total per year. In particular, inefficient state levies – such as insurance stamp duty and NSW's fire services levy – need to be replaced as a priority with more equitable revenue measures. In NSW, taxes can add a crippling \$40 to every \$100 of premium⁴.

IAG advocates for removal of unfair burdens on insurance customers and has made a number of submissions on the issue in FY11. Submissions relating to taxation on insurance can be found on our website (<http://www.iag.com.au/IAGNews/mediaReleases.do?queryText=Latest&docFilterType=&htmlFlag=N>). In August 2010, we were pleased to hear the Victorian Government announce it would abolish the fire services levy, following the recommendation of the Victorian Bushfire Royal Commission.

However, even with the right tax reform, the affordability of insurance is likely to remain an issue for a very small proportion of

3 The Insurance Council of Australia, "Non-insurance in the small to medium sized enterprise sector", December 2008 <http://www.insurancecouncil.com.au/Portals/24/Issues/SME%20Report%20Final%20231208.pdf>

4 Source: IAG's submission to the Inquiry into state government taxation and debt by economic development and infrastructure committee, September 2009

properties that have been placed at extremely high risk by poor planning decisions. The most sustainable way to manage the cost of risk in the longer term is to boost resilience via adaptation (planning, building standards) and mitigation, ensuring that our community is adequately prepared, ideally preventing and if that is not possible, adapting to the changing nature of its risks. Adaptation reduces both the exposure to risks and the cost of claims. In turn, this helps to keep the cost of insurance down. Development, planning, zoning, building codes and infrastructure in those areas at risk are particularly important decisions that affect the risks faced by communities. As an organisation we have made a commitment through the National Disaster Insurance Review to work with local governments to share information and perspectives on the risks that they face and how they might ensure their communities are more resilient in the future.

Communities need to understand the risks that apply to their area as too many people are simply not aware that they live in an area that has been subject to flood, or fire many times in the past. Each of our operating brands presents information on their websites to help customers identify and manage risks. We also share information and knowledge through community partnerships.



Community partnerships

Insurance is about managing risk across the community, so it is important for us to engage with the communities in which we operate to help them reduce and manage their risks. We take a strategic approach to community investment, seeking partnerships that enable us to share our knowledge and promote initiatives that reduce risk. There's a clear community benefit in reducing risk, as well as the benefit from a lower level of risk to improve the affordability of insurance premiums.

We have formed important partnerships to help our customers prepare for adverse events through education campaigns and community engagement by promoting initiatives that reduce risk at home, on the road and in the workplace, or that help communities adapt to weather related risk.

For example, through our Direct Insurance division, we offer community grants to groups looking to reduce risk at home and on the road, or help communities become more sustainable. We partner with Kidsafe in NSW, ACT, QLD and WA to provide free child restraint checks to parents and carers. Held at local branches and shopping centres, this free service teaches parents and carers about the changes to national child restraint legislation and gives one-to-one advice about how to seat their children safely. This year more than 750 parents and carers have had their child restraints checked as a part of this service.

In response to driver fatigue as a major cause of crashes in New Zealand, our State business continues to support the State Driver Reviver program, to help drivers stay alert on the roads.

We also provide support when events do occur and consequently our Direct Insurance business has a long-standing and major sponsorship of The Salvation Army Emergency Services (SAES) to provide practical support and encouragement to victims and emergency workers in crisis or disaster situations.

MANAGING OUR BUSINESS

Capital management

To realise our purpose to help people recover from the hardship of unexpected loss, we need to ensure that we have the capital to pay claims as they arise. Our customers rely on us to be there and to keep the promise we make to them when they take out a policy with us.

To ensure we have enough capital in place to help customers in their time of need, we are focused on our capital reserves and take a conservative approach to their management.

The challenge of capitalisation is to get the balance right; too little capital poses an unacceptably high insolvency risk for both shareholders and policyholders, whereas too much capital requires high profit margins from policyholders that would fail to meet shareholder return expectations. The Board establishes a target level of capital that balances competing objectives and is synchronised with the other risk levers.

IAG's target level of capitalisation is assessed by consideration of various factors, including the minimum capital required by the Australian Prudential Regulation Authority (APRA), over the next one to three years. At 30 June 2011, we held 1.58 times the amount of capital required by our regulator, the Australian Prudential Regulation Authority (APRA). While this level of capital is above our long term benchmark of 1.45 to 1.5 times APRA's requirement, it is lower than the position at 31 December 2010, owing to the impact of increased natural peril activity in the second half of the year. This position will improve as claims are settled, reinsurance recoveries are received and price increases take effect.

Information on IAG's capital composition is detailed in the Annual Report.

Both investment returns and reinsurance play a critical role in our overall capital management, and these are discussed below.

Investment portfolio

As an insurer, IAG generates returns for shareholders both through income from premiums and from our investment program. Income from our investment program is critical, since these funds back our reserves

of over \$12bn that ensures we are able to pay claims. Consequently, we have adopted a relatively conservative approach that is outlined in our Annual Report.

IAG applies our risk management expertise to our investment portfolio. We manage our investments according to a rigorous set of criteria, as well as regulatory constraints. IAG's Global Strategic Asset Allocation (SAA) framework focuses on generating cost-effective and consistent active return on shareholders' funds and technical provisions.

We align our corporate sustainability goals while considering investment returns. We remain a member of the UN Principles for Responsible Investment; however, our ability to influence the companies in which we invest to integrate Environmental, Social and Governance (ESG) factors into practices is limited due to the way that we manage our funds. We continue to believe that the best way for us to make a difference is through the Sustainable Investment Fund (SIF).

IAG's SIF was established in 2008 and is currently at a level of \$100m. The fund invests in diverse assets that generate attractive long term wealth for IAG's shareholders, while aligning with the values of the communities and the environments in which we operate.

Reinsurance

Reinsurance is a key element of an overall approach to capital management and the ultimate sustainability of any insurance company. We purchase reinsurance, the 'insurance for insurers', to limit our exposure to the claims that our customers make when a specific event occurs. This provides us with protection for large, but less frequent catastrophes, for example, an earthquake. To put this in some context, in total, we spend around half a billion dollars on reinsurance each year, meaning that about six cents of every dollar of premium is going to a reinsurer.

We use reinsurance because it is a cost-effective way of accessing capital when it is needed. For a company like IAG, with operations that are relatively concentrated in a few markets, it would be extremely expensive to permanently hold such large amounts of capital. Reinsurance means we dilute our risk into a broader global pool and

provide more affordable products to our customers.

IAG's reinsurance counterparties are the major reinsurers of the world, globally diversified and for whom the cost of holding large amounts of capital is lower than it would be for us. We have long standing relationships with our reinsurers, some of which we've been dealing with for over 50 years. Our strategy has always been to build sustainable relationships with trusted partners. We have a diversified panel of more than 30 reinsurers, and the counterparty credit profile is strong.

While it is true that the recent level of natural disasters may affect the short term profits of global reinsurers, we have not seen an impact on the availability of reinsurance capital. For reinsurers, a large Australasian company like IAG carries global importance, offering exposure into Australia and New Zealand and diversification away from other more concentrated exposure, for example, the hurricane season in North America, windstorms in Europe and earthquakes in Japan.

Over the past 12 months, managing capital in this manner has given us significant protection from the natural disasters we've experienced. For example, as New Zealand's largest insurer, IAG insures around 20-30% of Canterbury, yet our reinsurance meant the net cost to our Group of the first earthquake last September was nil and the more recent quake in February 2011 only \$40 million – much lower than the gross claims of our customers.

The challenge for us is that we “rent” this capital one year at a time. It is likely that recent major events will put upward pressure on reinsurance prices. Reinsurers price over the long term and are resilient capital providers with a detailed understanding of the frequency of natural perils. Reinsurance rates are also determined based upon global supply and demand of capital. To counter the effect of these expected increases, we are passing on price increases through a phased fashion across our businesses.

In the longer term, IAG's strong position in the Australian and New Zealand markets should continue to make us strategically attractive to our global reinsurance partners.

Governance and accountability

IAG is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and to create long term value for its shareholders. To achieve this, IAG promotes a culture that rewards performance, integrity, respect, and a considered sense of urgency, the values that underpin all of our operations.

The regulatory environment in which IAG conducts its business has a major influence on IAG's corporate governance practices. We actively engage with governments, regulators, industry, and professional groups to ensure that the interests of IAG and its stakeholders are properly considered in proposals to improve corporate governance, the general prudential regime and insurance industry practices. This includes making submissions to federal and state government committees, reviews and inquiries and regulators in relation to new legislation and regulation affecting the general insurance industry. These submissions can be found on our website.

Further details on IAG's approach to corporate governance and the key corporate governance practices followed by IAG and our people are provided in the Corporate Governance Statement of the Annual Report and in the 'About IAG' section of our website (<http://www.iag.com.au/about/index.shtml>).

This approach underpins our activities, including our focus on accelerating the growth of our Group. The Asian market is vital to our medium to long term growth and our proximity to this emerging market enables IAG to deploy its capabilities and achieve profitable growth.

Our strategy is to boost our Asian footprint so that this business represents 10% of our total gross written premium in five years. While there are challenges to expanding into these markets, the opportunity available with the current limited penetration of insurance is considerable; for example, in the Indian market only 0.6%⁵ of the Indian Gross Domestic Product is attributable to insurance, as compared to significantly higher contributions in other economics.

This strategy relies heavily on acquisition through joint ventures and we actively

manage the inherent risk through a disciplined process of country analysis, market analysis, business model analysis, partner selection, and strategic return. IAG maintains strict acquisition criteria and sufficient capital to leverage opportunities and has rigorous partner selection criteria and frameworks, with a consistent approach across markets. Selection criteria include product and channel compatibility, the quality of the business, alignment with IAG's strategic objectives, and the ability to work with the partner to transfer capabilities that allow IAG to create value; for example, an IAG executive is currently CEO of AmG in Malaysia, whilst we have four full time roles including Deputy CEO and senior roles in Underwriting, Claims, and Distribution in SBI General.

We spend considerable time with potential partners to ensure they share the same principles, values, and expectations as we do. We expect the relationship we build with them is one that will last for the longer term, which means constantly balancing the intention to grow with providing long term value.

Efficiently managing our resources, including our carbon footprint

IAG remains focused on the efficient management of our resources. This contributes to our economic sustainability by reducing operating costs, and reflects our commitment to act responsibly as a business, by reducing our impact on the environment for example, through lower electricity consumption.

We continue to advocate strong mitigation activities to meet our commitment to be carbon neutral by the end of financial year 2012 and are focused on identifying and implementing ways to reduce consumption and/or switch to alternate sources that are less carbon intensive. Having already implemented a number of consumption reduction activities (refer to FY11 environmental performance), we are now faced with implementing more challenging and innovative initiatives that will reduce our footprint. We will not be able to reduce our carbon emissions to zero; therefore, to achieve our carbon neutral goal we will need to purchase eligible offsets in 2012.

Each division is responsible for investigating how to avoid and reduce emissions in their own operations. For example, the cross divisional Energy and Water Action Group identifies opportunities to avoid or reduce

electricity consumption, such as the desk top power down initiative that reduces the electricity used by our computer equipment.

The footprint of our scope 1 (direct) and 2 (indirect, as a result of electricity generation) emissions in Australia means we did not reach the reporting threshold in FY11 for the National Greenhouse and Energy Reporting (NGER) Act. The NGER Act is a national mandatory corporate reporting system (framework) for greenhouse gas emissions, energy consumption and production, where certain thresholds are met. We will continue to monitor our carbon dioxide equivalent (CO2e) emissions to ensure ongoing compliance with this Act and remain committed to transparently reporting CO2e emissions. We continue to submit data annually to the Carbon Disclosure Project (CDP), which collects information on carbon use and distributes it to investors, corporations and governments. To view IAG's submission go to www.cdproject.net.

High performing people to help us realise our purpose

Our people fulfil our commitments to our stakeholders and help us deliver on our purpose. That's why finding the right people and encouraging them to perform at their best is critical to the sustainability of our Group.



To help our people perform at their peak, we have developed performance management frameworks across the Group, which link individual objectives to Group and divisional strategy, and ensure performance is appropriately measured and rewarded. Group and divisional strategy is linked to individual scorecards for each of our people, against which their performance is reviewed. Our reward philosophy is based on recognition of those people who consistently perform above expectations.

IAG manages its talent through appropriate learning and development programs, supporting extra-curricular training and education and providing financial and leave

support for those pursuing tertiary education and other professional qualifications. Insurance is a specialised and technically-focused business, which means traditionally, people may not be offered leadership opportunities away from their core speciality. Key for us is tailoring the development needs of our workforce from both a technical and leadership development perspective.

Consequently, we aim to match the skills of our talented people to our most important business priorities, focusing on providing opportunities for people across the Group to move to where they can add most value and learn the most in return. This will help us deliver on our priorities as a business.

IAG's global high potential and emerging talent is identified and reviewed biannually through transparent Group and divisional talent management programs, which also enables us to plan for succession for key roles. An objective identification process reviews all talent program candidates and a small group then proceeds to formal assessment. Based on needs assessment results, individual development plans are completed for each participant. These plans may include on-the-job development, further formal study, or participation in the IAG Advanced Leadership Program depending on their level of seniority. The IAG executive group then meets regularly to discuss the progress of the talent pool and monitor the status of the company's succession grid.

Each of the IAG operating businesses and corporate office is responsible for developing talent and succession management programs for employees within their divisions and each of our divisions has developed its own programs, such as the Leadership Development program in the IAG Corporate Office for senior managers.

The culture of our business also plays a critical role, as it influences how we work together, as well as our ability to achieve our goals and deliver against our strategy. Our businesses are therefore ensuring that the culture we are fostering focuses on the customer to support the aim of profitable growth.

IAG also has a clear diversity ambition (refer to FY11 workforce performance) that enhances our culture; we believe that delivering on our diversity ambition will help us attract and retain the people we need to drive the future success of the company and achieve our ambition to be the world's most respected group of general insurance companies.

A workforce that matches the diversity of our customers helps us to recognise and meet customer and community expectations more effectively. Diversity of background leads to diversity of thought, which helps create an environment in which outdated ideas are challenged and innovative work practices are developed. Providing the mechanisms which promote diversity, such as flexible work arrangements that meet both individual and business needs, leads to a more engaged and productive workforce.

Our challenge is to work out how to harness this diversity to benefit every level of the organisation and our dealings with all our stakeholders.

THE BROADER ENVIRONMENT

Regulation and the political landscape

Insurance is a key part of economic infrastructure, underpinning everything from building a skyscraper to purchasing a family car. Insurers are there to step in to help families and businesses quickly get on with their lives, minimising disruption and economic fallout.

IAG has a clear commitment and demonstrated approach; we actively participate in debates and maintain relationships so we are connected and can have input. This ensures that we stay relevant, helping to bring us a competitive advantage.

IAG supports regulation that enhances competition, protects consumers, encourages efficiency, and promotes and sustains public confidence in insurers and their products. The role of regulation should be to support and enhance competition, not interfere with it.

Operating in a number of international markets means that we engage with a number of different regulators and political scenarios. Australia's insurance market, where the majority of our operations are based, is highly regulated and quite complex. It is the 14th largest in the world and the sixth largest in the Asia-Pacific region behind Japan, China, South Korea, India and Taiwan⁶.

In Australia, we are regulated by the Australia Prudential Regulation Authority (APRA). The Australian Securities and Investments Commission (ASIC) deals with matters relating to advice or disclosure of our products. The Australian Competition and Consumer Commission monitors compliance with competition law. In addition, in some states, various bodies have specific powers to regulate certain types of statutory insurance, for example, in New South Wales the Motor Accidents Authority regulates compulsory third party motor vehicle insurance.

There are a number of regulatory issues to consider and we continue to work with the Insurance Council of Australia, federal and local governments and other stakeholders to deliver maximum consumer benefit, and protect long term sustainability. For example, we are engaging on a number policy areas of regulation and prudential supervision, including consumer protection and taxation.

In New Zealand, the introduction of the prudential licensing regime for general insurers is shaping the broader operating environment. This will require all insurers to comply with governance frameworks, for example, an independent board, fit and proper requirements, and a minimum solvency standard. Our New Zealand operations already meet these requirements, which at a time when the industry in New Zealand is facing its largest losses, provides us with a great source of competitive advantage. In addition, at the beginning of June the New Zealand government released a discussion paper on the reforms to the Accident Compensation Corporation (ACC) to open this market to competition. We will be involved in strategic discussions and will look to see if the terms for participation are commercially acceptable.

In Asia, IAG's existing operations (in Thailand, Malaysia, India, and China) and target markets (Indonesia and Vietnam) operate in varied political landscapes. The regulatory environments are at various stages of development and are continually evolving. We have an active program in place to understand and engage with the various regulatory regimes in which we operate through continual regulatory engagement and active participation in proposed regulatory reform. For example, when the Office of the Insurance Commissioner (the Thai insurance regulator) wanted to introduce risk based capital reform, both Safety Insurance and NZI Thailand participated in the 'pilots' to better understand – and influence - the impact of the changes and assist in the development of the risk based capital regime.

⁶ Austrade's Financial Services Benchmark Report 2010 (September) <http://www.austrade.gov.au/Invest/Opportunities-by-Sector/Financial-Services/Data-and-Charts/default.aspx>

Beyond regulation, there are other market and economic factors that confront the insurance industry that its members must address and manage to ensure they are sustainable.



Market conditions: Claims deterioration in the UK motor insurance market

In FY11, the economic climate, combined with external pressures on claim costs, continued to affect the UK's general insurance market. IAG was not immune to these pressures.

UK insurers continue to face strong claims inflation as a result of unprecedented levels of bodily injury claims, driven by "claim farming" organisations and the availability of substantial referral fees paid to those in the claims management process who pass leads to claims management companies, as well as personal injury lawyers who offer 'no win no fee' services to claimants.

Bodily injury claims are now estimated to account for 50% of UK motor insurance claims costs, compared to 20% a few years ago⁷, partly as a result of the fact that the number of firms registered to offer personal injury claims services has grown by nearly 60% from 1,409 in 2008 to 2,500 in 2010⁸. The Ministry of Justice did, however, shut down nearly 350 unscrupulous or unauthorised claims management companies in the year to 31 March 2011, a ten-fold increase over 2010.

Analysis of insurers' Financial Services Authority (FSA) returns suggests a 2010 combined operating ratio (COR) for the market in the region of 119%, little changed from 2009.

Industry fraud also remains a serious concern. The Association of British Insurers (ABI) estimates that £930m of motor

insurance fraud went undetected last year, whilst staged accidents involving several people, all of whom claim for minor injuries supposedly caused by the crash, now cost the industry £350m per year. In response to these pressures, the majority of insurers have significantly increasing their rates.

There are some encouraging signs in the UK government's response to recommend greater controls over insurance claimants seeking unacceptable bodily injury settlements.

Other signs of improvement in the UK insurance market include:

- further rate increases;
- the continuous enforcement regulations which came into effect from June, which should reduce uninsured driving;
- positive trends such as a reduction in road traffic accidents and vehicle theft; and
- ongoing high fuel prices which reduce business and commuting mileage.

Against this backdrop, the UK business has accelerated its change programme by continuing to vigorously review all products and distribution channels, targeting rate increases on underperforming business and focusing on improving key capabilities such as pricing, claims management and fraud detection. We have also taken out reinsurance cover to limit exposure to claims across the 2001 and 2010 underwriting years.

The extensive programme of actions underway in the UK is beginning to deliver signs of improvement and the business is determined to realise its stated objective of restoring profitability as soon as possible.

Weather events

Weather-related risk forms a significant component of our total risk profile in our insurance policies. Understanding weather-related risk is fundamentally important to IAG as we focus on building sustainable businesses and communities through managing risk.

Our ability to price risk appropriately is critical and affects IAG's long term sustainability and ability to provide insurance. With a more unpredictable climate, historical claims and weather data

⁷ Source: Towers Watson – Transport Select Committee: The cost of motor insurance

⁸ Source: Ministry of Justice Claims Management Regulation Annual Reports: 2010/2011 – Page 20

is less reliable. In the last few years the frequency and scale of severe weather events has increased. Not only does this increase the number of claims we see, the increased pressure on the system gives rise to post-event claims inflation. This combines with reinsurance costs to drive premium pricing higher, especially as a result of the significant number of other natural perils events (such as the earthquake in Japan) that have occurred.

Recent events have underscored the importance of a strong insurance market in assisting communities recover from events and this will ultimately present opportunities for insurers. Sharing our risk expertise with our customers and the communities that we operate in simply makes sense.



IAG has its own Natural Perils Research team that conducts forward modelling based on detailed data analysis to ensure we are positioned to understand how long term risks may be changing. This allows us to develop sophisticated models for the assessment of weather-related risk; for example, from hailstorms and tropical cyclones, where modelling allows us to examine the most vulnerable areas, the types of risk we have in each area and likely losses. This information helps us to assess risk and can be fed into our pricing. It also allows us to focus our efforts on adaptation and greater community resilience, such as providing input into stricter new building requirements in cyclone-prone areas that reduce the damage inflicted.

A very topical weather-related issue is that of insurance coverage for flood events, subsequent to the terrible flooding in Queensland.

All water damage is not the same. Water damage from flash-flooding or the sudden excess run-off of stormwater is a different type of risk.

Water run-off from heavy rain during a storm is a risk that applies more or less evenly to the vast majority of properties across Australia. This sort of risk can be fairly and evenly distributed.

On the other hand, riverine flood – caused

by water rising out of a river or body of water bursting its banks, often quite some time after the rain has stopped – is a certainty that affects only a small proportion of properties in Australia.

In some locations, particularly on floodplains, such riverine flooding is not a risk; it is a guaranteed event every few years. Insurers need access to detailed riverine flood mapping, especially accurate digital elevation data, before they can price a flood product in a way that is fair to all customers.

This year, IAG made a submission to the Natural Disaster Insurance Review (NDIR), putting forward our views that the private market must be allowed to increase the take-up of flood cover in Australia and that over-regulation is not the answer.

IAG has always said that we would offer a product if appropriate flood mapping data was released. This commitment is borne out by the fact that we already do provide flood cover in states where this information has been made available, such as NSW. In Queensland, this data – which is the responsibility of local councils – has largely been unavailable.

We have invested significant time and resources this year into collecting data, with pleasing cooperation received from some local councils, and are working to extend the availability of flood cover in 2012.

We realise for a small minority of people who have properties built in areas of extremely high flood risk flood cover is likely to be unaffordable. For this group, we believe there is scope for insurers and governments to work together to make premiums more affordable, with the government potentially offering a subsidy or incentive for high risk households. We are actively working through this with the government and other stakeholders.

In our submission to the NDIR, we also state the government needs to address the core issue of building Australia's resilience to natural disasters. More flood insurance products will not prevent floods recurring in the future, and we need to reduce the community's exposure to these events.

Continuing our focus on adaptation and community resilience is energy well directed. However, it is crucial that the government's policy response goes beyond insurance, to not just focus on flood but consider all potential natural disasters. This requires long term thinking with governments, planning authorities, builders, developers, the business community and individuals working together.

PERFORMANCE FY11

IAG's approach to managing performance

Everything that we do – from divisional strategies to individual goals – needs to support the execution of our strategy and our ambition to become the world's most respected group of general insurance companies.

To ensure we are managing our diverse portfolio of businesses towards this common goal, IAG uses strategy maps and balanced scorecards as key components of the strategic planning process. Strategy maps translate the strategic plan into a robust balanced scorecard, which measures progress against goals and objectives.

The Group strategy map is used by operating divisions to develop divisional strategy maps, which support the corporate strategy. Divisional performance is then monitored via balanced scorecards and IAG's Corporate Office facilitates the reviews on a quarterly basis.

These scorecards then translate into individual balanced score cards for each of our employees, which clearly links individual goals to corporate or divisional objectives.

We review our performance by looking at a suite of metrics, or key performance indicators across the economic, customer, workforce, community, and environmental perspectives. Being a diverse Group, there are challenges in gathering performance data that is relevant across all of our operations. Going forward and in the longer term, we will focus on better aligning the key performance metrics within this sustainability reporting process with those metrics included in the balanced scorecard.

Our performance in the current year (including five-year trend data where available) is presented in the data summary section of the sustainability area of our website (www.iag.com.au/sustainable).

We recognise that to continuously improve we need to review the indicators that we use to manage our business and then report on. This involves ongoing improvement and refinement of the indicators that we report including enhancing and strengthening the on-going monitoring processes and aligning the key performance indicators that we review in our balanced scorecard to those reported in our sustainability report.

External recognition and benchmarking

IAG participates in external benchmarking activities and sees this as a valuable way to capture feedback from a variety of stakeholders on what we are doing well and what we could do better. We are proud that we continue to be recognised externally for our commitment to business sustainability.



Global 100 Most Sustainable Corporations

IAG has been recognised in the 2011 Global 100 Most Sustainable Corporations in the World. The aim of the Global 100 list is to identify and recognise global corporations that have been proactive in managing environmental, social and governance issues. IAG was also recognised in 2006, 2007, 2008 and 2010.



Dow Jones Sustainability Indexes

This index tracks the economic, environmental and social performance of the leading sustainability driven companies worldwide. IAG has been ranked a global sector leader since 2006.



FTSE4Good

This index measures the performance of companies that meet globally recognized standards on corporate social responsibility. IAG has been a member of the FTSE4Good Index series since 2005.

CARBON DISCLOSURE PROJECT

Carbon Disclosure Project

IAG has been included in the Australia and New Zealand Goldman Sachs JBWere Climate Disclosure Leadership Index since 2008. This index constitutes companies demonstrating leadership in disclosure across a range of climate change issues relevant to investment.

While we are proud of these achievements, our focus remains on continuous improvement and ensuring the long term sustainability of our business.

OUR PERFORMANCE FY11

ECONOMIC

Our approach to customers, community, the environment and our people provides the foundation for financial performance.

We can only continue to meet our obligations to our stakeholders and deliver value to our shareholders if we continue to drive financial performance. Our performance is guided by our strategy, outlined under 'About IAG – Our Strategy'.

Details of our five-year performance are located on our website at www.iag.com.au/sustainable.

For FY11, IAG has announced:

- Underlying Gross Written Premium (GWP) of \$8,050m
- An insurance profit of \$660m
- An insurance margin of 9.1%
- Reinsurance costs of \$620m

GROSS WRITTEN PREMIUM (AU\$m)



INSURANCE MARGIN



For more details of our financial performance, refer to our 2011 Annual Review and Annual Report or 2011 Investor Report at www.iag.com.au/results.

CUSTOMER

IAG is a diverse Group, and our customers include individuals, businesses, brokers, and other intermediaries and businesses. To put this in some context, in FY11 across the IAG group we have 16.2m risks or policies in force, and paid \$6bn in claims costs. Our business is structured to ensure we are customer focused, to help us deliver on our aim to provide general insurance in a way that delivers superior experiences for our stakeholders.

To ensure the ongoing sustainability of our customer franchise, we need to meet and exceed our customers' and intermediaries' expectations, making every interaction they have with us a positive one.

It is therefore important for us to monitor whether we are meeting their expectations and the graph below demonstrates our performance in key customer metric.

CUSTOMER (BROKER) SATISFACTION



A slight change in methodology in the collection of customer feedback in our Direct Insurance business in Australia has meant that comparisons from this year to last year are not meaningful. We are though pleased with the improvement in our New Zealand business and only slight decrease in our UK business broker satisfaction results given the significant number of changes that have been occurring in that business.

CASE STUDY

IAG's response to the Canterbury earthquake in New Zealand

The 7.1 magnitude earthquake that occurred in Canterbury, New Zealand in September 2010, the subsequent aftershocks and second and third major earthquakes in February and June 2011 caused widespread damage to homes, roads, bridges and vehicles that required our immediate action. Our New Zealand business acted quickly to ensure that customers' claims could be managed as soon as possible.

Claims calls were handled by call centres around the country, with our people working around the clock. State Insurance offered a rapid claims lodgement process on-line, promoted via radio advertising. Claims staff were mobilised on the streets in mobile claims centres, with camper vans set up to enable staff to answer questions, lodge claims, and hand out water and food. A free call number was also set up to advise where the mobile claims units were located for the day, with live crosses running on local radio stations every morning to confirm where the vans were located. The business also let customers know through media advertising what action they could take personally to ensure that their claim was processed as quickly as possible, for example, taking photos of their damaged goods before cleaning up.

For seven weeks, over 150 volunteers in the mobile claim centres were on the ground helping more than 4,500 people in 33 locations – including customers of other insurance companies – to lodge 1,010 claims.

Our claims staff went above and beyond to assist customers. For example, one staff member visited an elderly customer in hospital to pick up his keys and went back to check on his house, to let him know the extent of the damage.

Given both the strategic and operational impact of the New Zealand earthquakes, our New Zealand business has created an Executive General Manager Canterbury Recovery role. The role is charged with developing and delivering short and long term Canterbury recovery and response strategies across all of our brands and key stakeholders, and has accountability for the strategic and operational effectiveness of our Canterbury earthquake program. This has included building a Canterbury recovery team, coordination and collaboration across all IAG brands to ensure streamlined processes and systems, determining funding and policy needs, and communication with relevant industry, community and government groups.

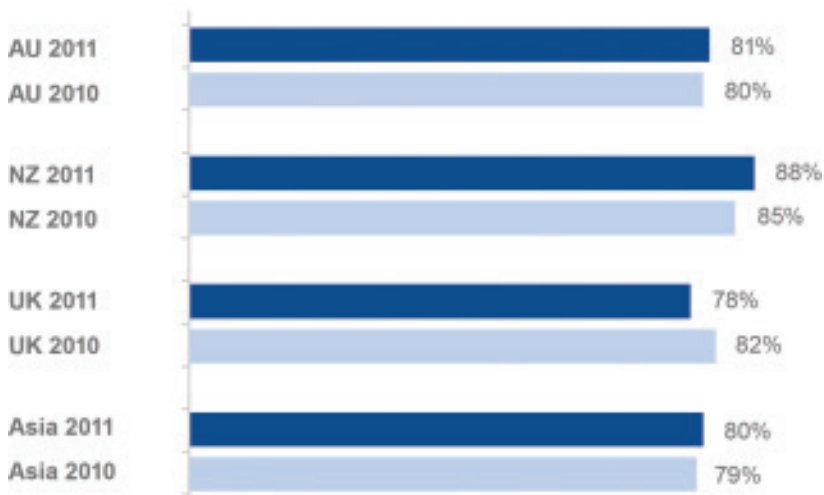
WORKFORCE

To ensure our long term success, we are focused on having the right people in the right roles and ensuring we provide the environment for our people to perform to the best of their ability to help IAG deliver on its purpose and corporate strategy.

Engagement

We measure this through our annual engagement survey, undertaken across the Group by an external provider Towers Watson.

EMPLOYEE ENGAGEMENT



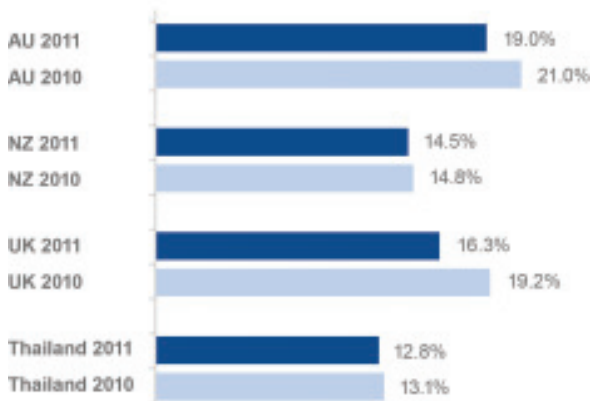
Engagement across the Group for the past year was 82, which represents an increase on last year (80). This reflects our on-going commitment to engaging with our staff and we are particularly pleased with the improvements in engagement that we have seen in our Australian and New Zealand businesses. To have our people more engaged and committed to our business gives us a competitive advantage.

We also continue to exceed the benchmark for global financial services companies as set by our survey provider.

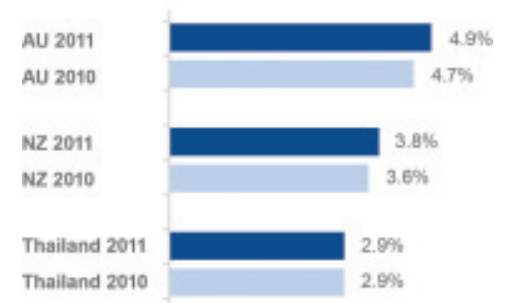
Turnover and absenteeism

FY11 saw a consistent reduction in employer initiated turnover. Interestingly, even though the employment market has continued to improve, we have seen little or no increase in employee turnover. Importantly, we have reported a reduction in employee initiated turnover less than one year as a result of initiatives that have been put in place across the business, including the provision of training for managers to assist them in the recruitment process and on-boarding of new staff members.

TURNOVER



ABSENTEEISM



Absenteeism has remained relatively stable and is an area on which we continue to focus. The slight increase that has occurred in our New Zealand business can be attributed to a number of our own people being affected by the Canterbury earthquakes and needing to take some personal time.

Diversity

The diversity of our workforce is a key area of focus for IAG. IAG is committed to creating a workforce and culture where we respect and value the different experiences of our people, and harness the opportunity and business benefits that diverse ideas and perspectives bring to our organization and stakeholders. Diversity is fundamental to helping us deliver on our ambition to be the world's most respected group of general insurance companies; by attracting and retaining disciplined business leaders who are passionate about our customers and have a broad range of skills, experiences and frames of references, it will drive innovation within our organisation and in turn, deliver an improved financial performance.

At IAG, we're concentrating on improving gender, age and ethnic diversity in our organisation. We believe that improvement in these areas supports our workforce sustainability and builds competitive advantage by leveraging thinking and aligning more closely with our customer base.

IAG's Diversity Working Group, chaired by the Group CEO, which includes the Chairman and a representative from each of IAG's operating divisions and the Corporate Office, is responsible for diversity policy and philosophy and the application of that policy is the responsibility of each of the divisions. Each division is provided with its data so tailored and additional programs can be designed

IAG has for some time reported transparently on metrics to illustrate gender diversity and going forward, we will build on these to reflect our broader Diversity commitment.

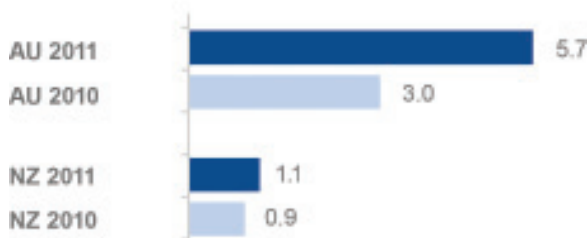
The IAG Diversity Working Group will be putting together a program of initiatives relating to these goals, to support our people through the different stages of their working life. During FY12, we will also hold focus groups in Australia, Thailand and the UK to learn more about the experiences of our people and gather suggestions about how IAG can assist through these stages.

Safety

Safety at work is a basic right and expectation of our people and at IAG we are all responsible for this. Our health and safety policy and framework identifies the actions we take to create a safe work environment for our employees, contractors and visitors.

In FY11 IAG Australia revised our occupational health and safety (OH&S) data validation process for reporting of lost time injury frequency rate (LTIFR) and lost time injury severity rate (LTISR), which resulted in improved data capture and greater accuracy in the rates reported. IAG's safety performance is not where we would like it to be in our Australian business, and it is an area of high focus for IAG executives and their operations. IAG's approach is to strengthen our OHS risk management programs to better target the causes of our lost time injuries and the severity of these injuries, and improve performance going forward.

LOST TIME INJURY FREQUENCY RATE



Last year we realigned our health and safety management system to fit the devolved business model. The system incorporates a framework outlining the company commitments, management system, roles, and responsibilities. Divisional health and safety management plans ensure priorities are assigned and targets set for improvement. The program and management plans are reviewed annually as part of the normal business planning process.

In FY11 IAG's focus has been on reviewing our OHS governance framework and management system in preparation for the new harmonised legislation. Governance standards have been developed and a large part of our program for 2011-2012 is aimed at review and alignment of our safety management system with the new harmonised legislation. This is underpinned by the commitment of IAG executives to ongoing improvement of our health and safety programs across the Australian operations.

CASE STUDY

Our diverse workforce

In FY11, IAG conducted a diversity census throughout our businesses to learn more about our people's different experiences and perspectives and give us a benchmark for the current diversity of our organisation. 64% of our employees completed the survey. High level insights include:

- our people have 130 different countries of birth;
- 71% of people have worked in an industry other than insurance;
- a quarter of our people have worked for us for over 10 years; and
- 34% speak more than one language.

These results show the high level of diversity that IAG already has across the business. The census also confirmed that age, gender and ethnicity should continue to be our primary areas of focus.

IAG New Zealand receives culture transformation award

In September 2010, IAG’s New Zealand business received a Culture Transformation Award from Human Synergistics, an organisation that researches and measures the relationship between human behaviours and performance. The awards celebrate Australian and New Zealand organisations that have created and sustained great, constructive, work cultures. This award recognised the cultural improvements the have been made within our New Zealand business.

In 2008, our New Zealand business identified culture transformation as a priority due to lower than expected business results and a decrease in engagement scores.

Consequently, life at IAG’s New Zealand organisation has changed significantly over the last two years; through the design and implementation of an ambitious and diverse range of change initiatives, there have been positive changes in culture, engagement, retention, absenteeism and profitability.

One of the initiatives implemented includes a coaching framework to encompass the more than 2,000 staff across 28 sales centres and eight branches, with coaching capability positioned as a key component within the Leadership Development program.

The coaching program included consulting, setting clear program objectives in line with business strategy, a tailored training program, communication of the program benefits and successes, coaching skills for all people managers, training of internal coaches and aligning coaching with other human resource processes. The program was integrated into existing frameworks, including remuneration and reward and performance management. Coaching now forms part of all people manager job descriptions and 94% of people managers now report using coaching skills every week.

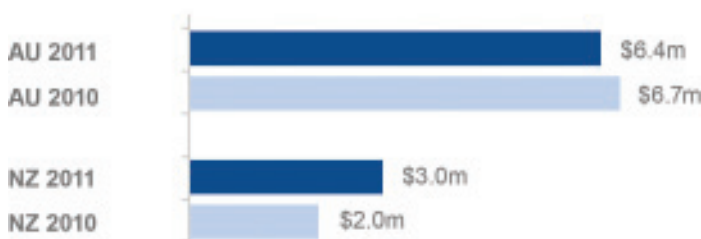
COMMUNITY

In line with our purpose, we engage in the communities in which we operate to help them reduce and manage their risks. Like many other companies, we continue to measure our community investment by focusing on the inputs rather than on the output or impact of that investment. It’s not always possible to quantify the economic or other benefits of community investment. Where we are able to quantify an impact, this tends to be at a specific program level.

However, while the benefits and value of community investment and partnerships may be difficult to measure, they are undeniable. A thriving community is a key plank to having a thriving organisation. We recognise that as an organisation our investment will have a direct impact on our business through the reduction of risk. You also cannot underestimate the pride that employees feel through our community involvement.

Consequently, we continue to measure community investment through inputs – cash, in-kind contributions, time given and where possible impacts and outputs. Targets for community investment are set at a partner level and we monitor our performance against these commitments. We are clear that community investment is a sound investment choice even in difficult economic times.

COMMUNITY INVESTMENT (AU\$m, NZ\$m)



Our Direct Insurance business in Australia is our largest business, and as such continues to drive a significant proportion of our community investment. Direct Insurance continues to focus on opportunities that align with the business’ priority of helping to build safer communities, supporting communities at a national, state and local level. For example, the ACT Home Safety

Program, partnering with Mission Australia's South West Youth Services to support young people in the community who have recently left the juvenile justice system, as well as the community grants program through which 155 community grants were provided in FY11 to various groups committed to making communities safer.

In New Zealand, there has been continuing investment in the Surf Lifesaving NZ, Swimming NZ and Ocean Swim NZ partnerships which accounts for the increase in spend that has been experienced across the year.

CASE STUDY

CGU recognises local business excellence

In FY11, CGU will sponsor the Ballarat Business Awards for the 23rd year running, recognising innovation, excellence and the opportunities offered by Ballarat and surrounds to those who aspire to achieve within their industry.

Last held in August 2010, the CGU Commerce Ballarat Business Excellence Awards celebrate the contribution local residents, customers, clients and business people make to the city's economic and social fabric. They also provide an opportunity for local businesses to gain insights into further growth and development.

CGU Insurance is proud to be the primary sponsor of the awards that reflect the vibrancy of the community. CGU, in partnership with our local brokers and intermediaries, strongly believes in supporting local business initiatives across the country. The Ballarat Awards are a great example of how small and medium business growth is a major driver to the economic and social success of the region.

Working with our suppliers

An important factor in determining the level of a premium is the cost of any claim made. That's why IAG works with our suppliers to ensure we manage the cost of claims.

The level of devastation caused by the Canterbury earthquakes has meant that there is significant upwards pressure on claims costs, resulting from the cost of the amount of demolition required. In New Zealand IAG has therefore been working very closely with Hawkins construction, its construction partner, to manage the cost of claims by minimising waste that goes to landfill through a recycling program. This not only benefits our business by decreasing the costs of demolition, in turn helping us manage the cost of claims, but also benefits the environment by reducing the waste going to landfill.

The process has seen building materials, such as concrete, brick, metal and timber, removed and separated by Hawkins during the demolition process, to ensure that as much as possible is recycled. Over the period Hawkins has been working in Canterbury since the earthquake, 78% of building materials were recycled, meaning only 22% of all building waste went to landfill. The removed salvaged materials are then crushed (in the case of concrete), treated, re-used as scrap or re-sold.

In another part of our business, NRMA Auto Glass is working with its waste provider Visy, to ensure glass from broken or damaged doors, front and rear windscreens, as well as float or flat glass is recycled. Using the onsite bins, in excess of 90% of glass is recycled, again helping us to manage claims costs.

The glass is cleaned of excess urethane, rubber, small metal pieces and wire, and is then crushed and sorted. It is remanufactured into glass bottles and jars, insulation and glass abrasives by Visy and is also supplied to glass manufacturers for re-use.

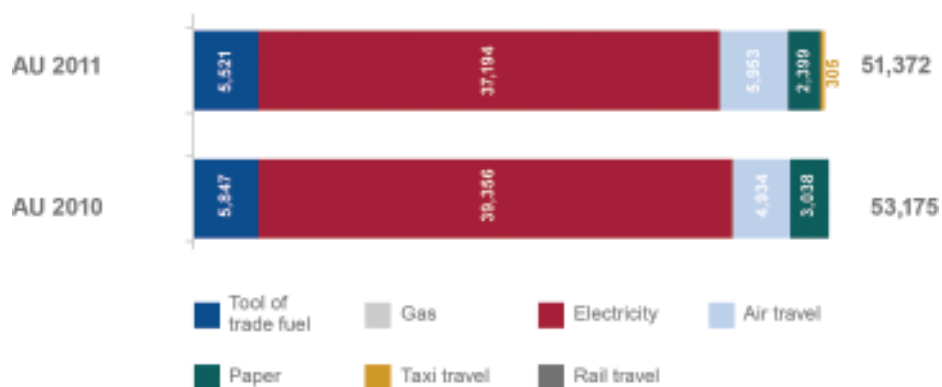
ENVIRONMENT

Our environmental sustainability strategy includes managing not only our impact on the environment, but also the impact of the environment on our business. This means adopting a dual approach through both mitigation and adaptation activities.

IAG's Footprint

Our Australian business is our largest contributor to the Group emissions profile, contributing 83% of the Group's emissions.

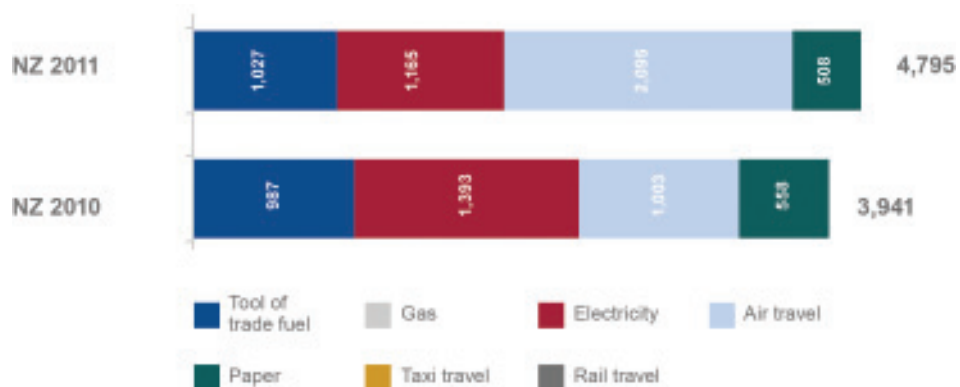
AUSTRALIAN EMISSION PROFILE (tonnes CO2e)



This year we have seen a reduction in our Australian emissions of 3.4%, driven by continuing reductions in electricity and paper consumption. Continued implementation of our desk top power down initiative, focusing on ensuring computer hardware is turned off when not required, and consolidation of our property portfolio has driven the reductions in electricity consumption.

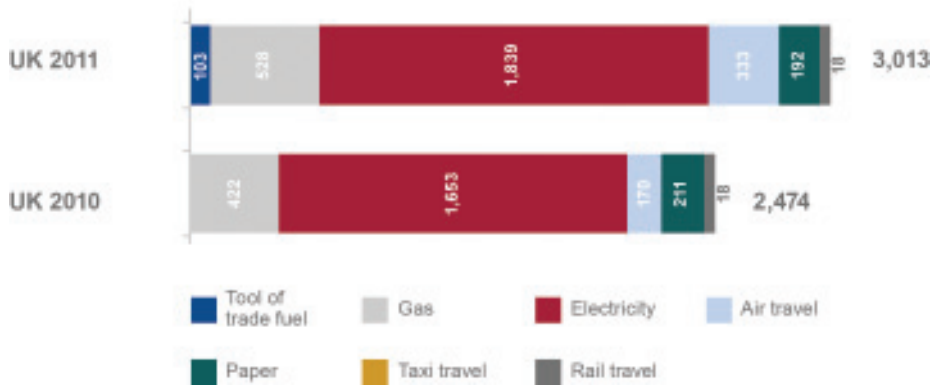
We have experienced a significant increase in air travel across these operations as a consequence of the natural disasters that have occurred throughout the year, necessitating additional travel by our people.

NEW ZEALAND EMISSION PROFILE (tonnes, CO2e)



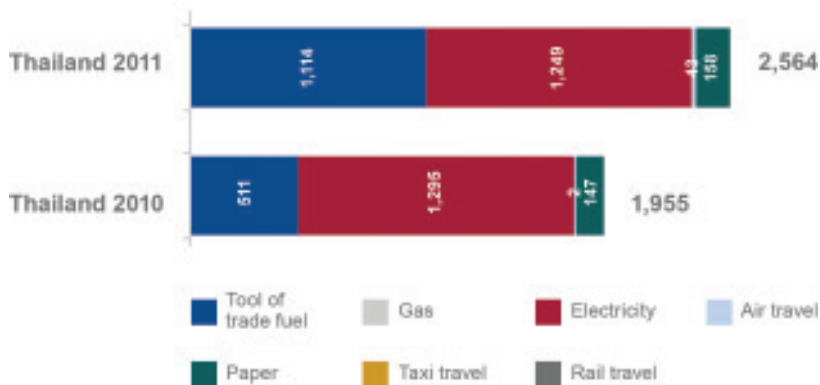
The increase in air travel has also been experienced in our New Zealand business and has had contributed to a 22% increase in emissions (or 13% per FTE). It is important to recognise in this business that there have been significant additions made to headcount to ensure that the business can respond effectively to the devastating earthquakes that have occurred across the year.

UK EMISSION PROFILE (tonnes, CO2e)



Our UK and Thai businesses have reported their carbon emissions for the second year running. In the UK, whilst there have been consumption decreases in air travel, rail travel, and electricity consumption, with only minor increases in gas and office paper, the emission's footprint appears to have increased significantly. This is attributable to the UK aligning their carbon emissions factors to the best practice factors that are used by the Australian, New Zealand and Thai businesses, in particular for air travel.

THAI EMISSION PROFILE (tonnes, CO2e)



Our Thai business has experienced a number of consumption increases in paper consumption and in particular the tool of trade fleet. The fuel consumed by a number of motorcycles used for business purposes was not previously being included in the figures but this has now been rectified. A move to best practice emission factors for air travel has also increased the emissions derived from air travel.

Helping our customers and the community

You only need to look at the events of the past year to see what a large impact that weather events have had on communities around the world. We recognise the important role that we have to play in building resilience and adaptive capacity, both internally and within the broader community.

These include:

- Ensuring we have a good understanding of the risks associated with climate change, for example through our dedicated Natural Perils Research team in our reinsurance division;
- Sharing information on risk and how to reduce it, for example, through information that we provide on our websites;
- Forming partnerships to help communities adapt, for example, through our partnerships with Queensland State Emergency Service;
- Assisting in emergency readiness and response, helping our customers at claims time, by ensuring we can make claims payments quicker and help people to get back on their feet; and
- Influencing and advocating – insurance companies acting alone, or even collectively, will only have a limited impact in achieving success. What is needed is a collaborative effort on many different levels from a range of stakeholders, for example through our submissions to the National Disaster Insurance Review.

Going forward, we see an opportunity for IAG to further leverage its risk management expertise, across a wide range of risks, to help our customers and the community manage the risks that they face, or adapt to those that cannot be eliminated.

CASE STUDY

Australian Direct Insurance business's five star facility in Mulgrave

In April 2011, the Direct Insurance Mulgrave site was awarded a 5-star green star office interior rating by the Green Building Council of Australia. This rating represents excellence in environmentally sustainable construction and is the second of our office fit outs to have achieved this rating, with the Parramatta site achieving the rating in FY10. This will also have benefits beyond the purely environmental, such as workforce productivity gains due to the design features of the building.