

IAG strengthens market position in New Zealand through acquisition of AMI

Insurance Australia Group Limited (IAG) today announced it had entered into an agreement to purchase the AMI insurance business for NZ\$380 million (approximately A\$288 million), enhancing its position as New Zealand's leading general insurer. The acquisition excludes all liabilities relating to the earthquakes which have affected the Canterbury region. It will be funded from internal resources.

The acquisition is an important further step in the Group's stated strategy to accelerate profitable growth in its home markets of Australia and New Zealand and is expected to be earnings per share accretive in the first full year of ownership, excluding integration costs and amortisation of identified intangibles.

IAG's Managing Director and CEO, Mr Mike Wilkins, said the acquisition is a unique opportunity that delivers on IAG's strategic priorities both at a Group and local business level.

"The acquisition brings together New Zealand's top two direct personal lines insurers – IAG-owned State Insurance and AMI. It adds nearly 30% to our existing New Zealand premium base, in a market which we know well and believe will continue to offer attractive returns in the future," Mr Wilkins said.

"AMI is one of New Zealand's most iconic brands, with a proud heritage and strong customer loyalty and retention rates. It has approximately NZ\$360 million in annual gross written premium (GWP), more than half of which is motor insurance, and has demonstrated sound underlying profitability in recent years.

"The transaction enhances our position in New Zealand and demonstrates our commitment to that market."

Mr Wilkins added that reinsurance cover will remain in place providing significant protection up to NZ\$1.4 billion with a retention level of NZ\$10 million.

Combining IAG and AMI in New Zealand is expected to generate at least NZ\$30 million per annum in net synergies within two years. Related integration costs of NZ\$40 million are expected to be recognised.

CEO of IAG's New Zealand business, Ms Jacki Johnson, said AMI was highly complementary to IAG's existing operations, which include its intermediated business, NZI, and direct insurance business, State.

"AMI and State share similar cultures with deep community roots and a strong customer focus. We are delighted to be taking guardianship of such a valuable brand and providing certainty to AMI's customers and people," Ms Johnson said.

She said the integration process would involve leveraging the best of each insurer's product and service capabilities, while realising the benefits of greater scale.

"Our customers will have more choice in how they interact with us and access to a broader product set. Our people will have more opportunities in a larger and stronger business, and our business partners will benefit from our increased scale," Ms Johnson added.

As part of the sale process, all of AMI's liabilities relating to current and future claims from the earthquakes which have affected the Canterbury region will be retained by a new company owned and backed by the New Zealand Government. IAG has agreed to provide people and IT support services in respect of those liabilities.

"While IAG is not on risk for AMI's claims resulting from the Canterbury earthquakes, we're pleased to have reached an agreement which ensures AMI's affected customers will receive continuity of service. We have been providing insurance to people in Christchurch and the Canterbury region for many years and look forward to maintaining a positive and sustainable commitment to the region," Ms Johnson said.

Mr Wilkins advised that IAG's New Zealand businesses had performed well in the first five months of the 2012 financial year.

"We're pleased with the underlying performance of our existing New Zealand business in the year to date. Excluding AMI, for the 2012 financial year we currently expect GWP growth in excess of 10% and a higher full year insurance margin on the back of a return to more normal net natural peril claims experience.

"We are confident about the longer term outlook for the New Zealand insurance market," Mr Wilkins said.

The acquisition will be funded from internal resources. On a 30 June 2011 pro forma basis, the Group's minimum capital requirement (MCR) multiple of 1.55 remains above its long term benchmark of 1.45 to 1.50, after inclusion of this acquisition and the recently concluded New Zealand retail bond issue.

The transaction remains subject to regulatory approvals and is expected to be completed in February 2012.

About AMI

AMI is the second largest direct personal lines insurer in New Zealand and wrote over NZ\$360 million of premium in the year ended 30 June 2011. Its primary business is insuring homes, contents and vehicles, as well as some farms and boats. AMI serves around 500,000 customers and has 1.2 million policies in force.

About the transaction

IAG is acquiring a newly incorporated company that has had transferred to it the existing AMI business, with the exception of all the AMI Canterbury earthquake claims. These will remain with the current company, which will be owned and backed by the Government and given a new name.

About IAG

IAG is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite over A\$8 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann and The Buzz (Australia); NZI and State (NZ); Equity Red Star (UK); and Safety and NZI (Thailand). For further information please visit www.iag.com.au.

About IAG's New Zealand operations

IAG's New Zealand operations wrote over NZ\$1.2 billion of premium and accounted for nearly 12% of the Group's GWP in FY11. Through the State, NZI and Business Partners affinity brands, IAG is the largest underwriter in New Zealand. Insurance products are sold directly to customers under the State brand, and through intermediaries such as brokers and agents under the NZI brand. Personal and commercial products are also distributed under third party brands by corporate partners such as large financial institutions.

Market briefing

Please find attached a presentation with further details. IAG management will discuss this presentation via a teleconference at 10:30am (Sydney time) today.

To participate please quote conference ID 725554:

- From within Australia, dial 1800 558 698
- From within New Zealand, dial 0800 453 055
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IAG TO ACQUIRE NEW ZEALAND'S AMI

Mike Wilkins

Managing Director &
Chief Executive Officer

Jacki Johnson

Chief Executive Officer,
New Zealand

16 December 2011

Insurance Australia Group Limited ABN 60 090 739 923



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All amounts are presented in New Zealand dollars unless otherwise stated. FY11 refers to the financial year ended 30 June 2011.

AGENDA

1. Transaction overview

- Transaction highlights and structure
- Strategic rationale
- Financial impact
- Capital position
- Reinsurance cover

Mike Wilkins

2. Integration

- About AMI and its strengths
- Combined personal lines direct business
- Integration opportunities and synergies
- Alignment to New Zealand's strategic priorities

Jacki Johnson

3. Summary

- New Zealand market and business update
- Conclusion and questions

Mike Wilkins

1. TRANSACTION OVERVIEW

IAG AND AMI

Mike Wilkins

AMI ACQUISITION ENHANCES MARKET-LEADING POSITION

EARNINGS ACCRETIVE IN YEAR ONE

BUSINESS TO BE ACQUIRED

Acquisition of AMI for NZ\$380m (A\$288m)

- Second largest direct personal lines insurer in New Zealand
- Adds around NZ\$360m in GWP (combined GWP over NZ\$1.6bn (+30%))
- Iconic brand with strong customer reputation
- Excludes all Canterbury earthquake-related liabilities

STRONG STRATEGIC FIT

Enhances IAG's market-leading position in New Zealand

- In line with strategic priority to 'Accelerate growth in Australia and New Zealand'
- Delivers IAG's New Zealand strategic priorities sooner
- Strengthens IAG's competitive position in attractive motor market
- Increases overall market share to 40%

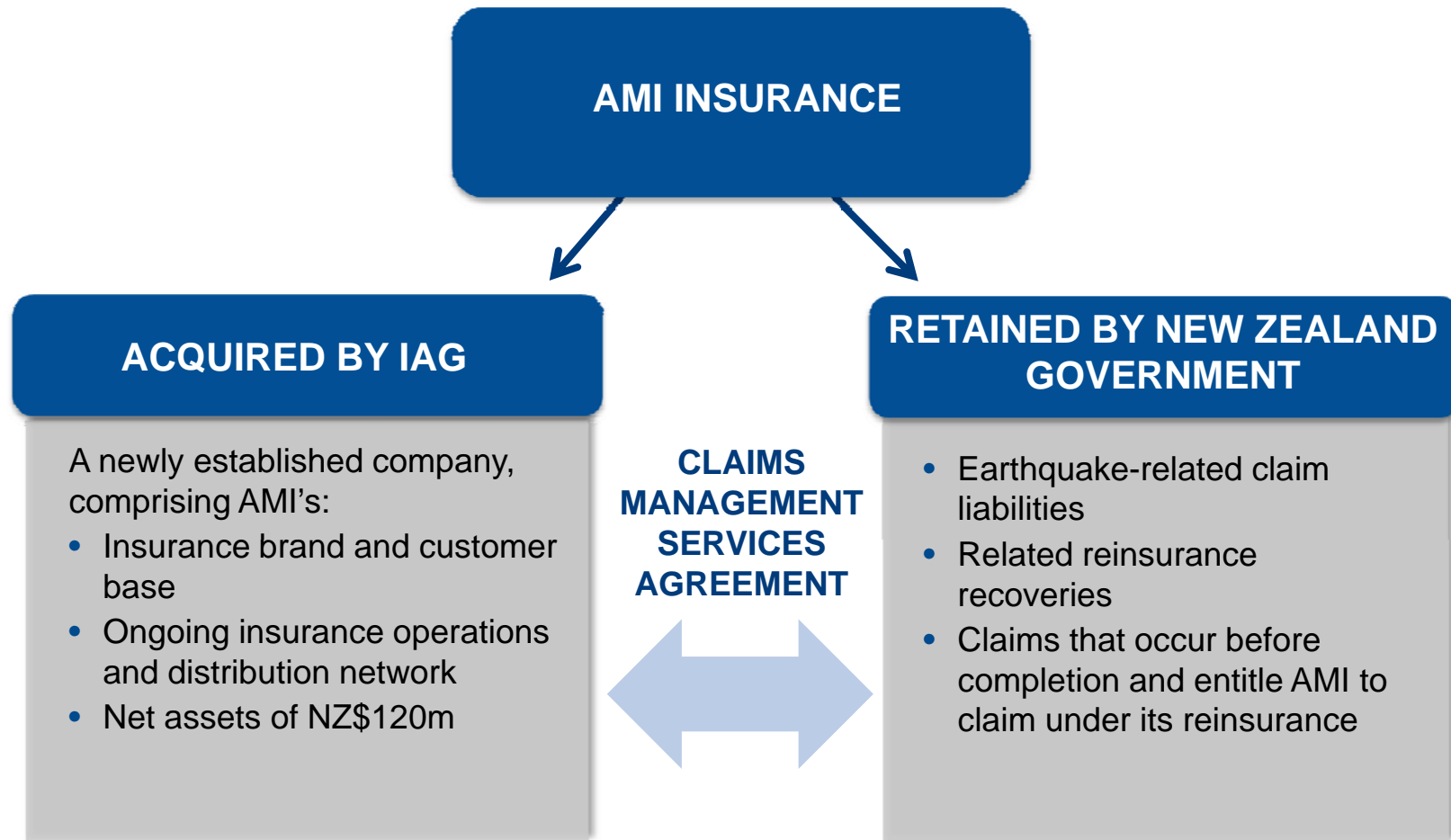
EARNINGS ACCRETIVE

Earnings accretive in first full year

- EPS accretive in first year, excluding integration costs and intangible amortisation
- Highly complementary fit with existing State business - significant synergies
- Funded internally – pro forma MCR above long term benchmark
- Subject to regulatory approvals – completion expected in February 2012

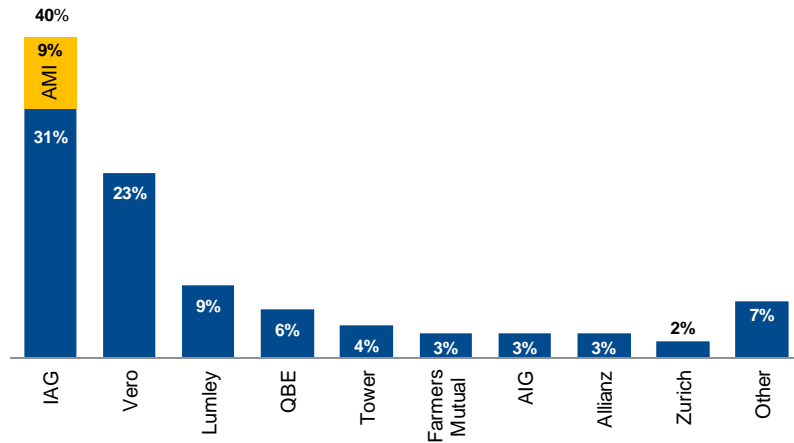
TRANSACTION STRUCTURE

EARTHQUAKE LIABILITIES RETAINED BY GOVERNMENT



COMBINED BUSINESS LEADING MARKET POSITIONS IN NEW ZEALAND

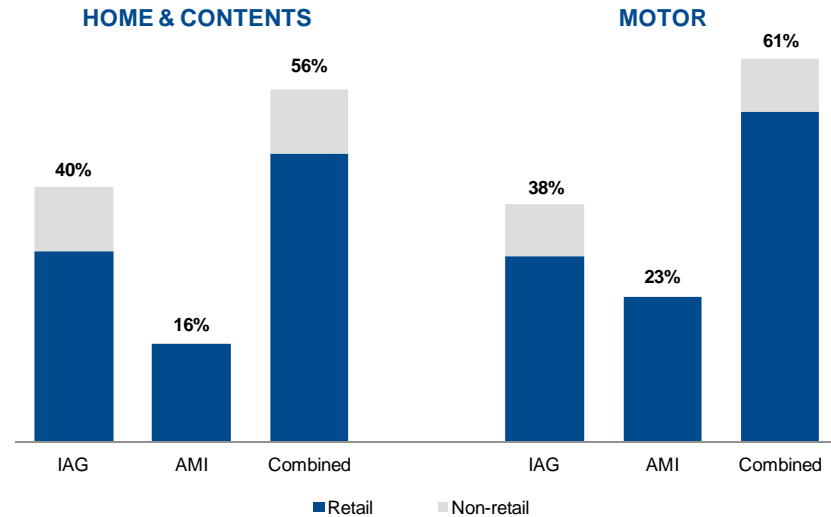
GENERAL INSURANCE MARKET



Addition of AMI strengthens IAG's market-leading position in New Zealand

- Market share of 40%
- Combined GWP of over NZ\$1.6 billion (+c.30%)
- Approximately 1.5 million customers and over 3.7 million policies-in-force

PERSONAL LINES MARKET

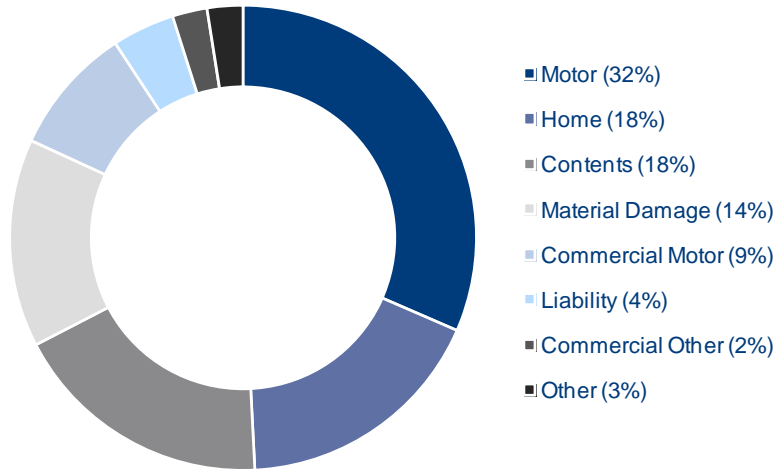


AMI augments already strong positions in key personal lines segments

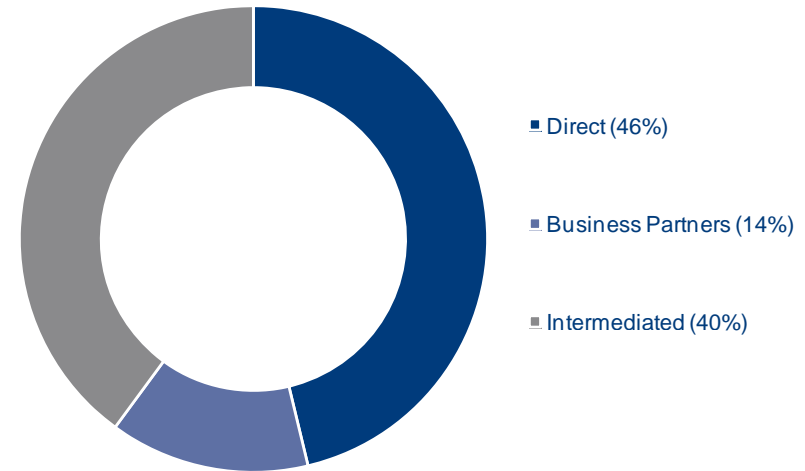
- Market share of 61% in motor
- Market share of 56% in home and contents
- AMI brings loyal customer base and distribution network

COMBINED BUSINESS DIVERSIFIED BY PRODUCT AND CHANNEL

GWP BY PRODUCT (FY11 PRO FORMA)



GWP BY CHANNEL (FY11 PRO FORMA)



Diversified product and channel mix

- AMI strengthens IAG's presence
 - Key motor segment now 32% of GWP (up from 25%)
 - Direct channel now 46% of GWP (up from 31%)
- Significant customer choice

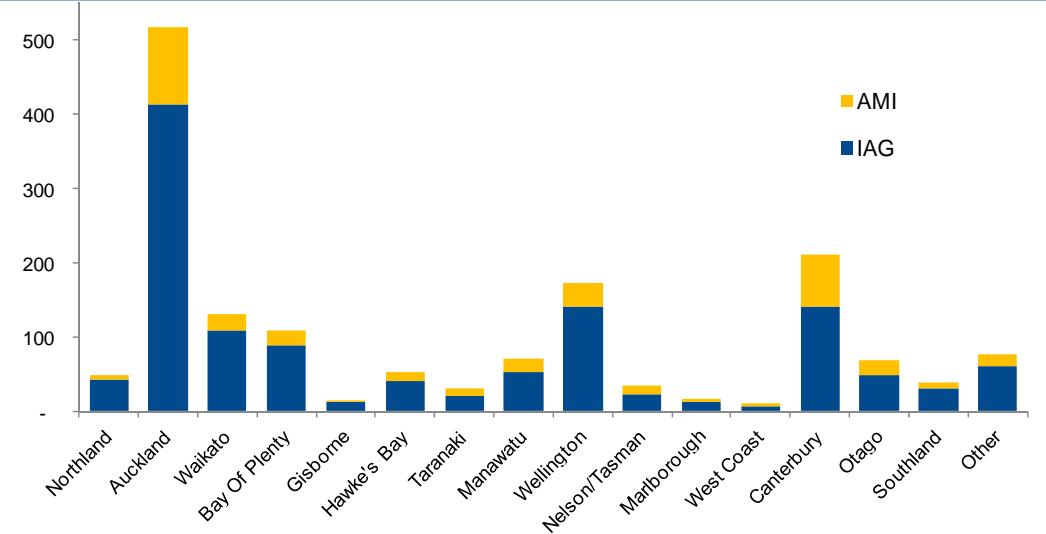


An unrivalled range of iconic brands with a proud and lengthy New Zealand heritage

COMBINED BUSINESS FOOTPRINT BROADLY IN LINE WITH REGIONAL DEMOGRAPHICS



REGIONAL GWP (FY11 PRO FORMA) NZ\$M



GWP BY MAJOR REGION NZ\$M %

Region	NZ\$M	%
North Island	1,149	71.4
South Island	384	23.9
Other*	77	4.7
Total	1,610	100.0

* Includes 'anywhere in New Zealand' insured risks

Auckland	517	32.1
Canterbury	212	13.2

VALUE ENHANCING EPS ACCRETIVE IN FIRST YEAR

EPS accretive in the first year

- EPS accretive for IAG shareholders in first full year of ownership, excluding integration costs and amortisation of identified intangibles

Annual pre-tax net synergy benefits of at least NZ\$30m within two years

- Synergies generated through:
 - Removing duplicate support infrastructure
 - Consolidating IT systems and underwriting platforms
 - Creating a set of products with a common architecture
 - Centralising and consolidating shared services functions
- Pre-tax integration costs of around NZ\$40m to be recognised

CAPITAL POSITION REMAINS ABOVE BENCHMARK ACQUISITION FUNDED INTERNALLY

CAPITAL POSITION	30 JUNE 2011	BOHAI	NZ BOND ISSUE	AMI	PRO FORMA 30 JUNE 2011
MCR (A\$m)	2,496	18	5	26	2,545
Capital base (A\$m)	3,933	0	246	(238)	3,941
Ratio (x)	1.58	(0.01)	0.09	(0.11)	1.55

Pro forma capital position above benchmark

- Acquisition funded internally
- Regulatory capital position includes inadmissible intangibles of c.NZ\$280m on AMI transaction
- Pro forma 30 June 2011 MCR multiple of 1.55, post AMI acquisition and New Zealand bond issue

SUBSTANTIAL REINSURANCE COVER PROTECTION UP TO NZ\$1.4 BILLION

- Reinsurance cover is in place to 30 June 2012
 - Significant protection of up to NZ\$1.4 billion
 - Maximum retention level of NZ\$10 million
- Majority of AMI's reinsurers are existing partners of IAG
- Options to align and integrate into Group-wide catastrophe programme will be considered

2. INTEGRATION

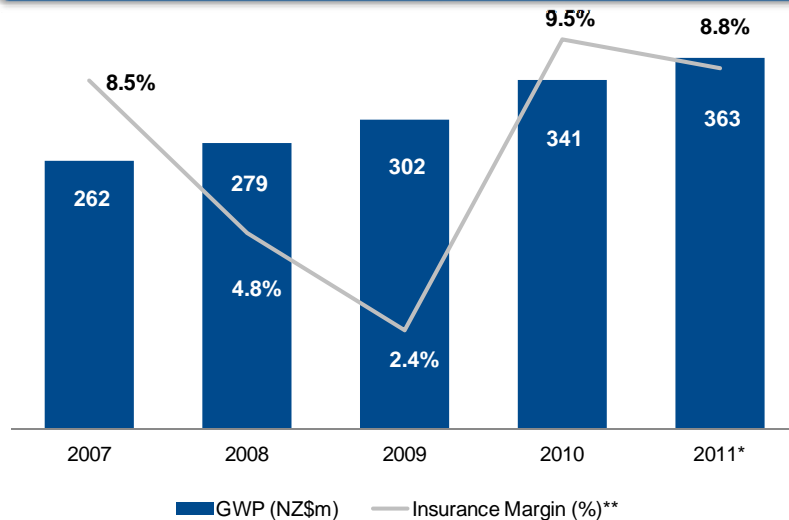
STATE INSURANCE AND AMI

Jacki Johnson

OVERVIEW OF AMI

LEADING PERSONAL LINES INSURER WITH NATIONAL PRESENCE

STRONG TRACK RECORD OF GWP GROWTH AND UNDERWRITING PROFITABILITY

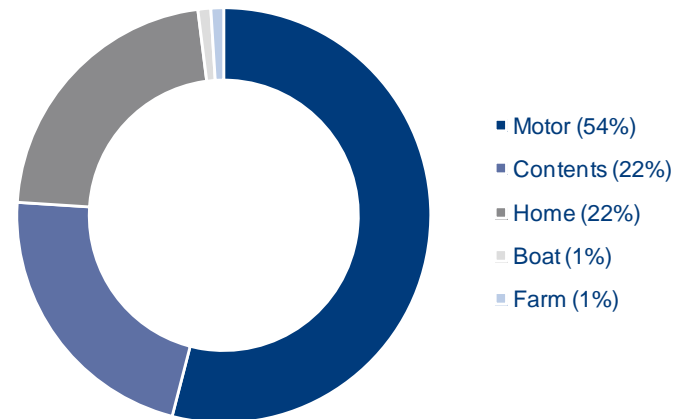


* Excludes earthquake claim costs and allows for higher expected reinsurance costs
 ** Information provided by AMI

- AMI has outgrown market for past four years, delivering a compound annual growth rate of 8%
- Steady level of policy growth achieved across all classes with disciplined underwriting approach
- Strong operating performance and extended profitability track record
- High customer loyalty and retention levels

CORE MOTOR BOOK WITH STRONG CUSTOMER LOYALTY

FY11 GWP BY PRODUCT



- Second largest direct personal lines insurer in New Zealand
- c.500,000 customers, with 1.2m policies
- Core motor book (54% of GWP) consistently profitable

OVERVIEW OF AMI ATTRACTIVE ATTRIBUTES

SIGNIFICANT MARKET PRESENCE

- National distribution network
- Strong footprint across key commercial centres
- 73 branches
- 21 dedicated agencies



HIGH LEVELS OF CUSTOMER LOYALTY AND RETENTION

- Customers with AMI for 5+ years represent over 64% of policyholders
- Customers with 3+ policies made up 66% of GWP
- Strong renewal rate

- AMI consistently ranked as one of the most preferred insurance brands in New Zealand
- Highly trusted and synonymous with quality customer care
- Strong community-based heritage – founded 85 years ago

- Staff renowned for professionalism
- Unique customer-centric culture has heavily influenced AMI's success

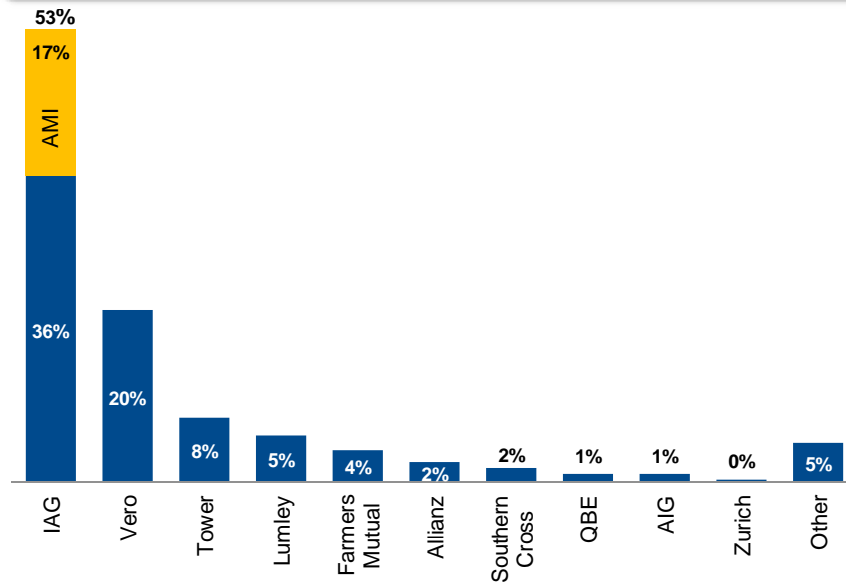
STRONG BRAND WITH DEEP HERITAGE

QUALITY STAFF AND STRONG CULTURE

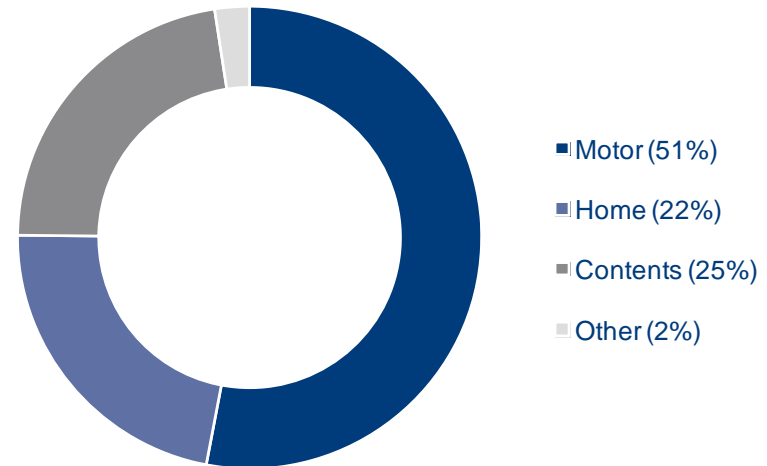
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COMBINED STATE AND AMI, COUNTRY'S LEADING DIRECT INSURER STRONG MOTOR EMPHASIS

TOTAL PERSONAL LINES MARKET SHARE



DIRECT PERSONAL LINES GWP MIX



- Total personal lines market share of 53%
- 51% of direct portfolio in attractive motor market
- One million customers, over two million policies and 100 branches
- Leverage multi-distribution, broader product set and customer approach across combined business
- Creates competitive advantage

CUSTOMER PENETRATION AND REACH

	AMI	STATE	COMBINED
CUSTOMERS	0.5m	0.5m	1.0m
POLICIES	1.2m	1.0m	2.2m
BRANCHES	73	29	102

COMPREHENSIVE INTEGRATION PROGRAMME

LEVERAGING THE 'BEST OF BOTH'

PRINCIPLES

- **Leverage the 'best of both' from both organisations:** adopt best practices from each organisation
- **Maintain a focus on 'business as usual' performance:** across all units and functions
- **Accountability at all levels:** integration teams have a single point of accountability to ensure all identified outcomes are achieved, tracked and reported consistently

APPROACH AND COMMITMENTS

- **Create a unique business model:** consistently deliver a superior performance for direct insurance customers
- **Preserve the AMI brand and network:** branches and community presence
- **Leverage scale and volume:** drive efficiency and continuous improvement
- **Offer customers more choice:** an extensive branch network, call centres and end-to-end online
- **Invest in product innovation:** add value to customers and drive retention

TIMING

- **Phase 1 (first 100 days):** new structure, remove duplicate support infrastructure
- **Phase 2 (year 1):** centralise shared services and support functions, consolidate IT systems, benefit from re-negotiation of procurement and service contracts
- **Phase 3 (years 2 and 3):** single underwriting platform and customer view in direct business

AMI ACQUISITION CONSISTENT WITH IAG'S NEW ZEALAND FOCUS DELIVERS PRIORITIES SOONER

DASHBOARD 2015

5.5/10 businesses and households

- ✓ Acquisition of AMI increases IAG's New Zealand personal lines market share and enhances its market leading position

+1 policy per customer

- ✓ AMI's customer penetration at 2.5 policies is higher than State's - ability to leverage customer care strategy into State
- ✓ Significant product cross-sell opportunities into AMI's loyal customer base (e.g. travel, SME), creating revenue opportunities

Customer advocacy score of 50%

- ✓ AMI brand and extensive branch network underpin customer approach
- ✓ Customer care model has resulted in industry leading customer advocacy of 91%
- ✓ Ability to replicate across the business, and opportunity to share and adopt best practice – across all functions

\$26.5/\$100 efficiency ratio

- ✓ Significant cost synergy opportunity to accelerate achievement of efficiency targets

Culture aligned to strategy

- ✓ Complementary cultures with a strong customer focus, deep community roots and similar values
- ✓ Compatible strong employee engagement levels

3. SUMMARY

Mike Wilkins

NEW ZEALAND MARKET UPDATE

IAG CONFIDENT IN LONG TERM OUTLOOK

New Zealand industry update

- Significant hardening of the market (commercial and personal)
 - Reflects significant reinsurance cost increases
- Reinsurance capacity and appetite for earthquake risk remain in place
- Slow, but steady, progress in Canterbury rebuild / claim settlement process as property zoning is increasingly finalised

IAG's businesses in New Zealand on track to post improved performance

- Excluding AMI, GWP growth in excess of 10% anticipated in FY12
- Return to profitability in 1H12, following earthquake-influenced loss in 2H11
- Improved FY12 performance expected, assuming return to more normal natural peril levels

SUMMARY

A SIGNIFICANT OPPORTUNITY IN A CORE MARKET

- AMI enhances IAG's position as the leading insurer in New Zealand
- Transaction aligns with IAG's strategic priority to accelerate growth in Australia and New Zealand
- AMI advances all of the New Zealand business' strategic priorities – customer and market penetration, customer advocacy and business efficiency
- No exposure to AMI's earthquake liabilities – retained by New Zealand Government
- EPS accretive in first full year of ownership, excluding integration costs and amortisation of identified intangibles – substantial synergies available
- Detailed integration plan, drawing on the 'best of both' businesses, executed by an experienced team
- Subject to regulatory approvals from New Zealand's Commerce Commission and Overseas Investment Office, and consent and issue of a licence from the Reserve Bank of New Zealand - completion expected in February 2012
- IAG confident in long term market outlook, with improved performance expected from existing business in FY12

DELIVERS ON STRATEGIC PRIORITIES RESET IN JUNE 2011

A CLEAR FOCUS ON AUSTRALIA, NEW ZEALAND AND ASIA

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

APPENDIX 1

AMI FINANCIALS: FY07–FY11

AMI Insurance Limited

Year ended 30 June	2007	2008	2009	2010	2011 Adj.*
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Gross written premium (GWP)	261,994	278,657	302,248	340,990	363,020
Net earned premium (NEP)	252,738	266,475	285,685	320,257	310,351
Cost of claims - excl. earthquakes	(156,168)	(176,872)	(194,578)	(194,922)	(187,552)
<i>Loss ratio - excl. earthquake</i>	61.8%	66.4%	68.1%	60.9%	60.4%
Expenses	(83,219)	(86,294)	(92,433)	(100,708)	(101,489)
<i>Expense ratio</i>	32.9%	32.4%	32.4%	31.4%	32.7%
Underwriting profit	13,351	3,309	(1,326)	24,627	21,310
Insurance profit	21,470	12,839	6,903	30,315	27,201
<i>Insurance margin</i>	8.5%	4.8%	2.4%	9.5%	8.8%

* 2011 adjusted for earthquake impacts, including expected higher reinsurance cost in FY12.

Source: AMI information memorandum

APPENDIX 2

ACQUIRED AMI BALANCE SHEET

	<i>NZ\$m*</i>
Cash & short term deposits	229
Prepayments & sundry debtors	28
Receivables	119
Plant and equipment	9
Intangibles	21
Other assets	1
Total assets	407
Unearned premium liability	199
Outstanding claims liability	52
Other liabilities	36
Total liabilities	287
Net assets	120

Source: Sale and purchase agreement

*Subject to AMI auditor confirmation of completion balance sheet, and alignment to IAG accounting policies