

PRINCIPLES FOR SUSTAINABLE INSURANCE

REPORT ON PROGRESS

SEPTEMBER 2014



Purpose of document

This document outlines our commitment and progress towards implementing the Principles for Sustainable Insurance, and highlights issues of importance to insurance and our future aspirations. This disclosure should be read in conjunction with IAG's annual non-financial reporting, included in the IAG Annual Review at <http://www.IAG.com.au/reportingcentre/2014/index.html>.

Introduction

Insurance Australia Group Limited (IAG) is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing more than 15,000 people.

IAG's businesses¹ underwrite over \$11 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann, WFI and Lumley Insurance (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); and AAA Assurance (Vietnam). IAG also has interests in general insurance joint ventures in Malaysia, India and China.



The Group's strategic priorities are to:

- Maintain a leading market position in personal and commercial insurance in Australia and New Zealand;
- Secure and grow our businesses in Asia;
- Drive customer centricity;
- Embed shared value strategy; and
- Explore long term growth opportunities.

¹ RACV is via a distribution relationship and underwriting joint venture with RACV. 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands. 49% ownership of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad, whose wholly owned subsidiary trades under the AmAssurance and Kurnia brands. 26% ownership of SBI General Insurance Company, a joint venture with the State Bank of India. 63.17% ownership of AAA Assurance Corporation, based in Vietnam. 20% ownership of Bohai Property Insurance Company Ltd, based in China.

IAG is a long standing member of the FTSE4GOOD index, is a constituent of the Dow Jones Sustainability Index, and has been included in the CDP ASX 200 Climate Disclosure Leadership index for eight consecutive years.

Sustainability at IAG

Being sustainable is fundamental to the way we do business at IAG. We recognise that IAG is part of the communities in which we operate and we have an important role to play in helping communities to be safer, stronger and more confident. We recognise that while we cannot eliminate risk, we can help the community and our customers to identify, minimise and manage risk and make informed decisions. Creating safer and more resilient communities requires a collaborative effort so we are working with community groups, regulators, not-for-profit organisations and businesses on local, national and international initiatives.

Our purpose, 'we help make your world a safer place', drives our activities. Consequently, we are co-ordinating and aligning all of IAG's environmental, social and governance (ESG), and community focused activities under a single Shared Value Strategy. This strategy will create alignment across IAG and is a strategic priority for the business, highlighting the critical value-generation role we see it playing. It will also unite IAG in the pursuit the delivery of our purpose and the achievement of the ambition to be the world's most respected group of general insurance companies. For more information go to www.iag.com.au.

We continue to push ourselves to identify new ways we can contribute to society as we manage our insurance businesses. This includes operating sustainably as an organisation, and actively seeking opportunities to contribute solutions to social challenges that deliver shared business, customer and community value. We believe the actions we take to create value for our customers, partners, people and the communities we serve can also create value for our shareholders.

IAG knows an organisation's success is driven by its people and we remain committed to investing in career development and leadership, attracting and nurturing talent, embracing diversity and inclusion and creating an agile organisational culture.

UNEP FI PSI

The PSI were launched in Rio De Janeiro in 2012 at the UN Conference on Sustainable Development (Rio+20 Conference). Developed by the UN Environment Program Finance Initiative in collaboration with leading insurance and reinsurance companies, the PSI provide a framework for the global insurance industry to address environmental, social and governance risks and opportunities.

IAG is the only Australian-based general insurer that is a signatory to the United Nations Principles for Sustainable Insurance (PSI), and we co-chair its governing Board. The PSI has a vision of a risk-aware world where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society. The PSI principles clearly underpin IAG's approach to being a sustainable business and to working with government and community stakeholders, and we continue to work on embedding the principles in our business.

The four main principles (see below) describe how corporate responsibility should be incorporated by insurers in their business.

How do the PSI work?

The PSI are not legally binding, instead they provide a voluntary and aspirational framework. Signatory companies are free to decide what actions they deem appropriate to implement the principles. All signatories are required to participate in the annual public disclosure process - transparency is an integral form of accountability, particularly in a voluntary and aspirational framework.

2014 Update on principles

Aspirations and plan to achieve them:

IAG is developing an integrated and aligned Shared Value Strategy that will incorporate our approach to the management of ESG issues. Our aspirations and plans to achieve the PSI will be reviewed as part of this. We will provide an update on these later in the financial year.

Actions taken to date:

Principles			
<p>Principle 1</p> <p>We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.</p>	<p>Principle 2</p> <p>We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.</p>	<p>Principle 3</p> <p>We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.</p>	<p>Principle 4</p> <p>We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the principles.</p>
Commitments			
<p>Commitment 1:</p> <p>IAG seeks to embed environmental, social and governance issues across all dimensions of our business.</p>	<p>Commitment 2:</p> <p>IAG is committed to on-going dialogue with all stakeholders on environmental, social and governance issues to drive action and develop solutions.</p>	<p>Commitment 3:</p> <p>IAG is committed to on-going dialogue with all stakeholders on environmental, social and governance issues to drive action.</p>	<p>Commitment 4:</p> <p>We will measure our progress in managing ESG issues and be accountable to our stakeholders by regularly disclosing our progress in implementing the principles.</p>

Key actions and examples

<p>Strategy: IAG's short and long term strategy explicitly includes objectives and goals regarding the management of social and natural environment issues and opportunities. This includes but is not limited to the potential impacts of a changing climate and social challenges such as affordability and accessibility of insurance.</p>	<p>Research: IAG is the only insurance group in Australia that invests in its own research centre. We conduct vehicle testing and research on cars, motor vehicles and building materials with a focus on safety and security. We share this information with our customers and partners to help them manage the risks that they face.</p>	<p>Australian Business Roundtable for Disaster Resilience & Safer Communities: Launched in June 2013, IAG along with Westpac, the Australian Red Cross, Investa Property Group, Munich re, and Optus formed <i>Roundtable</i> which believes it is of national importance to make communities safer and more resilient to extreme weather events. It plans to do this by working collaboratively with government to effect change in public policy and increase investment in safer and more resilient communities, and by improving the capacity of people and businesses to better withstand future natural disasters.</p>	<p>Disclosure: We disclose our progress on implementing the principles annually, and discuss ESG issues more broadly within IAG's annual reporting suite. We actively participate in indices requiring detailed information about environment and social strategy and performance such as the FTSE4GOOD, DJSI and CDP indices.</p>
<p>Shared value: IAG has explicitly included in its strategy a strategic priority to embed a shared value framework within the business.</p>	<p>Products: We have developed specific products to help our customers manage the risks that they face. For example, we have developed products that cover the risk of flood, and renters insurance for those customers wanting lower sums insured.</p>	<p>Research sponsorships: IAG funds the Cyclone Testing Station in Queensland located at James Cook University in Townsville. We also sponsor Risk Frontiers, an independent research centre co-sponsored by the insurance industry to aid better understanding and pricing of natural hazards risks in the Asia-Pacific region.</p>	<p>Material issues: Each year IAG identifies the key material issues to its business and discloses in detail how we are addressing / managing these issues. In FY14, the following key material issues were identified:</p> <p><i>Building customer confidence</i> IAG continues to place our customers at the heart of everything we do.</p>

			<p><i>Affordability of insurance</i> In 2014 we extended our work on the issue of insurance affordability.</p> <p><i>Mitigation</i> We focused on pre-disaster resilience and continued to manage our own emissions.</p> <p><i>Safer communities</i> We continued to promote safety and resilience at home, in business and on the road.</p> <p><i>A positive workplace</i> Our positive, inclusive workplace remained one of the keys to our success.</p>
<p>Risk management: Environmental and social risks and opportunities are identified and managed through our integrated company-wide risk management strategy and process.</p>	<p>Supply chain: EcoSmash, NRMA's interactive program has been designed to help smash repairers understand and comply with environmental legislation and regulations that relate to their business.</p>	<p>Public policy: IAG actively participates and responds to government inquiries and calls for submissions.</p> <p>www.IAG.com.au</p>	
<p>Asset management: IAG's sustainable investment fund established in 2008, and valued at approx. \$100m invests in diverse assets that generate long term growth for IAG's shareholders, while</p>	<p>Education: we continue to invest in educational initiatives to help manage risk. For example, we have piloted flood awareness seminars in high flood risk areas of NSW. NRMA's interactive help house which has been developed to provide useful</p>	<p>Partnerships: IAG has partnerships with a number of community organisations such as the Queensland Fire and Rescue Service, the SES and the Australian Red Cross. Through these partnerships information is shared</p>	

explicitly integrating ESG issues.	tips and practical advice on creating a safe, secure and environmentally friendly home.	with communities to help them manage the risks (both environmental and social) that they face.	
Research: IAG's natural perils research team are an internal team with backgrounds in meteorology and engineering. This team reviews and undertakes research to understand how the climate and weather related events affect insurance risk.	Reconciliation action plan (RAP): IAG has established a RAP to help address the issue of indigenous inclusion both within IAG and in the broader Australian community.	Business and industry associations: IAG has an on-going dialogue with business and industry associations to better understand and manage ESG issues across industries and geographies.	
Management of carbon emissions and carbon neutral status: IAG is focused on managing its carbon emissions. In FY14, we reduced IAG's global emissions profile by 5.5% compared to FY13. IAG is carbon neutral; this puts an internal price on each tonne of carbon which encourages our business to be more efficient in the way we consume resources.			
Infrastructure: A number of key IAG office locations are 5*green star rated. Environmental and social considerations are explicitly taken account in all property and facility management decisions.			