

**Address by Mr Michael Hawker, Chief Executive Officer  
Insurance Australia Group Limited  
2007 Annual General Meeting  
13 November 2007**

**[Slide: title side]**

Good morning ladies, gentlemen, and fellow shareholders.

This morning I plan to:

1. Reiterate our strategy;
2. Provide an overview of our performance in 2007; and
3. Discuss the company's outlook.

**[Slide: Progress against Strategy]**

Firstly, let me start with our company's strategy.

**[Slide: Strategy focused on general insurance]**

The strategy for the company remains focused on general insurance. As we have previously stated, to maintain our competitive position we believe we need to double the size of the company every five years. That equates to a compound annual growth rate of 15% pa. We'll achieve this through a combination of organic and acquisitive growth, while maintaining the capital strength and performance of the company.

We believe our strategy will ultimately deliver long-term sustainable returns. However, we acknowledge our short-term performance has been disappointing due to a number of factors. I will outline these challenges and our plans to address them later in my presentation.

**[Slide: A more diverse geographic spread]**

As you can see from this slide, initially we generated this growth by expanding out of NSW into the rest of Australia and New Zealand. We are now one of the largest general insurance groups across both these markets and, as a result, have sought growth opportunities offshore.

Our expansion overseas has had two areas of focus. Firstly, we have sought to expand into selected emerging markets of Asia where we can take our

competitive advantage into immature, high growth, markets. Secondly, we have targeted select OECD markets where we gain a capital diversification benefit, and can purchase assets which we believe are competitive and are positioned well to benefit from further development of these markets.

As a result, our company is substantially more diversified. In 2001 60% of our premium was concentrated in NSW and ACT. Today that number stands at 36%.

**[Slide: A diverse general insurance product portfolio]**

At the same time, we have also created better diversity by product and have reduced the exposure to the less certain long-tail classes of insurance, such as the various liability classes.

**[Slide: Performance during FY2007]**

Before I detail the financial performance during the year, I would like to recap on a few major milestones reached and events that occurred.

**[Slide: Gross Written Premium grew 15% to \$7.4 billion]**

First of all, our largest business, Australian direct personal lines, returned to growth mode. The direct short-tail book, which includes our core motor and home portfolios, grew 1.9% on the previous year.

During the year we also made significant investments in the UK motor insurance market, buying Hastings – a leading motor insurance broker, with an associated Gibraltar-based underwriter, Advantage; and Equity Insurance Group – a leading motor insurance underwriter and broker. Together these assets in the UK make the company the third largest personal lines insurance broker, the fifth largest motor insurance underwriter, and the largest motorbike underwriter in the UK. I will address the performance of these businesses later in my presentation.

**[Slide: Severe storms in Australia and UK cause >\$500m gross loss]**

A major impact on our financial performance was two severe storms which hit Australia and the UK in the last month of the financial year.

In Australia, over the Queen's Birthday weekend, the Hunter valley received significant storm and rainfall, resulting in property damage that in aggregate make it the fourth worst insurance catastrophe in Australian history. This follows Cyclone Larry in 2006 which rates as the sixth largest insurance catastrophe in Australian history.

Floods in the UK in June were the worst in modern history, surpassing even the Great Floods of 1947.

IAG incurred more than \$500 million in gross claims costs from these events. The impact, net of reinsurance, was \$200 million.

The fact that we have endured such events in consecutive years is causing the industry concern. There is clear evidence that our world is warming and that this increased warming is increasing the frequency and ferocity of storms. However, even in light of this warming, the probability of such events as we model them should not be occurring at the frequency we have experienced over the past two years. These changes increase the importance of insurance for the community and the challenges in ensuring that pricing reflects the risk being covered.

**[Slide: Financial Performance – growth and insurance profit]**

The following slides summarise our financial performance since 2002, with the current year highlighted in blue.

We grew gross written premium 15% during the 2007 financial year, exceeding our forecast of 12-14% growth for that year. Since 2001/02 the company has grown at an average of 15% pa.

Insurance profit has grown from \$210 million in 2001 to \$767 million in 2007 - a compound growth rate slightly more than 20% p.a.

**[Slide: Financial Performance – profit and dividends]**

Net profit after tax has grown from \$143 million in 2001 to \$552 million in 2007 - a compound growth rate of more than 25% p.a.

Dividends have grown over the same period by a compound rate of nearly 19% p.a., excluding the special dividend last year.

**[Slide: Financial Performance – return on equity]**

And finally the ROE during the period from 2002 has averaged 14.2% actual, and 17.1% normalised (which recalibrates the investment income element of the earnings within ROE to include the expected investment market returns over the long term as well as adding back amortisation).

It's fair to say our financial performance during 2007 was disappointing. I've already outlined the impacts of factors such as the storms. However, our performance was also affected by various market cycles and other challenges within our individual businesses. As a result, I will now provide an overview of the performance of each of our key operating businesses.

**[Slide: Operational Performance - Australia]**

I'll start with our Australian operations, which at 30 June represented approximately 74% of our total company revenue. Our largest division,

Australian Personal Insurance which includes our well-known brands NRMA Insurance, SGIO and SGIC, returned to growth mode. The business has strong growth momentum, a solid margin, good customer satisfaction, and high staff morale.

Our next largest business, Australian commercial insurance which is branded CGU, had a very solid performance generating a margin above 18%. However, this result masks very challenging market conditions, where much of the profit comes from favourable run-off of our prior period reserves. The inherent margins on new business have been falling for over three years, and a number of individual insurance products are now trading at a loss. We signalled that this situation is unsustainable and, as such, are repricing some parts of our business to adequately cover the risks, taking many of the cross subsidies out of the current portfolios. Although this may reduce our market share in the short-term, we believe it is the most appropriate and responsible management position to take so that we generate an adequate return on capital.

Finally, within our Australian operations, the Motor Dealer business Swann Insurance is performing well and our other Business Partnerships are improving their performance.

**[Slide: Operational Performance – New Zealand]**

Now let me cross the Tasman, and speak about our New Zealand operations.

During the past year we have reaffirmed our market leadership position in New Zealand re-gaining market share. The New Zealand marketplace has seen a softening commercial market for the past three years. However, over the past four months premiums have stabilised and have started to increase to better reflect the underlying risks.

Within the personal lines market, continuing above average storm and adverse climatic activity has seen home policies insufficiently profitable despite significant premium increase during the past three years. We have taken our Australian Personal Lines pricing system into New Zealand which will enable us to do more granular pricing by risk and should lead to improved financial performance over time. The cost of this system has reduced current earnings, but we expect the costs to be more than recovered over time through the improved efficiency and better underwriting capability.

We are also regionalising our call centres, which is improving customer satisfaction and improving our staff morale. A number of new products have been introduced and last year we generated a healthy 10% margin.

### **[Slide: Operational Performance – Asia]**

As I mentioned earlier our strategy has been to expand the company internationally, and during the past four years a large part of our focus has been in Asia.

Within Asia, our target markets are Thailand, Malaysia, China and India.

We are pleased with the progress we have made in Thailand and Malaysia, especially considering the lower level of economic growth in each of these markets over the past year.

During the current financial year, we expect to increase our shareholding in AmAssurance in Malaysia from 30% to 49%.

We have not made as much progress as we had anticipated in China and India, despite being very close to executing on two deals.

In China, we were in advanced negotiations to purchase 24.9% of China Pacific Insurance Company's general insurance subsidiary, China Pacific Property Insurance. Unfortunately a deal signed on 30 June last year with the Group Company's Chairman was not ratified by all the relevant Boards before the Chairman was replaced. Other priorities, including the proposed IPO of the group, led to a change in circumstances that meant our deal could not proceed. More recently we were one of a short list of two bidders in a deal in India but the final price was substantially higher than we offered.

We remain committed to both China and India, and are currently evaluating several opportunities in those markets. We'll ensure our approach to these opportunities remains as disciplined as it has been in the past.

### **[Slide: Operational Performance – UK]**

Finally, our newest market - the UK.

In September last year we purchased Hastings and Advantage. Their acquisition was an important first step in establishing UK operations and facilitating our purchase of Equity Insurance Group.

Within Hastings and Advantage we have had some operational issues. These issues mean we will not meet the hurdle rate of returns that we expected when we acquired this company. However, we are currently rectifying them.

### **[Slide: IAG UK: Equity Red Star out performance]**

Equity, our second and larger UK asset, continues to outperform the market as it has done for the past 27 years. It is one of the very few insurance businesses in the UK that has had 37 years of consecutive profit.

The general view of the UK insurance industry in 2006 was that the private motor market cycle was about to turn. However, the UK motor market further deteriorated in overall profitability during the year. This has reduced our expected returns for this financial year. According to a number of market commentators, the UK Motor market business written in 2006 on average lost 11c for every \$1 of premium written. Clearly, these market conditions are unsustainable. In response to these conditions we have:

- implemented significant premium increases on a number of our UK products;
- tightened our underwriting criteria;
- driven further productivity gains; and
- continued to expand our branch footprint, where we get better returns.

This is improving the quality of our business, with some small increases in average premium. In our view the cycle is bottoming in terms of pricing, which should see the beginnings of improved profitability in this business.

At the time of purchasing Equity, we were targeting £22 million in after-tax synergies. Since then, we have upgraded that target by close to 14% to £25 million. We are on track to deliver these savings by the end of the current financial year.

In summary, we are dealing with two negative cycles - Australian commercial insurance and the UK private motor insurance market. However, we have taken decisive action to manage the short-term issues and position ourselves for the return to more favourable conditions as the cycles turn, as they inevitably do. We are also dealing with increased frequency of weather events above our expected norms over the past two years.

We have some very strong underlying fundamentals in the business which position us well.

**[Slide: Our performance indicators are strong]**

During the past four years the engagement of our employees has risen from levels in the 40s to 61% for Australia. Many of our businesses are now in the “best employer” zone as measured by Hewitts.

Our customer satisfaction is very high, and we have high quality brand names within the company. Last week NZI was voted the Insurance Company of the Year in New Zealand, winning all five categories, and NRMA Insurance was recently awarded a “Five Star” rating for value by Cannex in NSW.

The capital strength of our company is of very high quality with a very strong ‘AA’ S&P insurer financial strength rating on our key wholly-owned insurers. So is the quality of our risk management systems. We are rated by S&P as being one of only 5% of insurers globally that have been awarded a top risk management rating of “Excellent”.

**[Slide: A Leader in Sustainability]**

We have qualified for inclusion into the Dow Jones Sustainability Index and improved our rating this year. In addition we are one of only three Australian companies included in the “2007 Global 100 Most Sustainable Corporations in the World” by Corporate Knights and Innovest Strategic Value Advisers at The World Economic Forum.

Today we also published our fourth annual sustainability report, which can be viewed on our website at [iag.com.au](http://iag.com.au). We have also printed a small number of reports, some of which are available here today.

**[Slide: Challenges, priorities and outlook for 2008]**

Finally, let me finish by reiterating our priorities for next year to ensure we successfully address our current challenges and deliver quality returns for you our shareholders.

**[Slide: Challenges and priorities]**

Our core priority is to drive even tighter focus on the execution of our strategy by:

- continuing to build the momentum in our Australian Personal Insurance business;
- addressing the challenges in parts of our UK business;
- maintaining our pricing discipline through the challenging market cycles;
- ensuring tight cost management; and
- building our management capability.

With respect to the last point, we have made a number of senior management appointments recently, the most senior being the appointment of Mike Wilkins as Chief Operating Officer of the company. Over the past six years the company has grown from around 6,000 people mainly located in NSW, to more than 15,000 people located in ten countries. This requires a greater depth of management. Mike brings proven management capability and will add considerable strength to the organisation’s capability set. We’ve known each other for a number of years, and have similar management styles and operating philosophies. I’m delighted he accepted my offer to join the company and look forward to working with him when he starts later this month.

With respect to acquisitions I am not expecting to make any further significant acquisitions until the benefits of expanding into the UK are realised.

**[Slide: Outlook for 2008]**

Finally, with regard to our forecast for the rest of this financial year, we expect gross written premium income will grow in the range of 7-9% for the year, the

insurance margin between 11-13%, that we will retain our strong capital discipline, and maintain our dividend at 29.5c per share fully franked. These comments are unchanged from those we recently gave at our annual investor briefing.

Thank you for your continued support during the year. We are confident we have a portfolio of quality assets that can deliver improved returns in future.