ADDRESS BY MR JAMES STRONG, CHAIRMAN
INSURANCE AUSTRALIA GROUP LIMITED
2008 ANNUAL GENERAL MEETING
11 NOVEMBER 2008

Before we commence the formal business of the meeting today, I would like to provide a brief overview of some of the recent initiatives the board has implemented to improve the performance of the Group.

I will then ask our Chief Executive Officer, Michael Wilkins, to provide a more detailed review of our operational performance and strategy, and an update on the Group's outlook for the current year.

There is no doubt the 2008 year was one of IAG's most challenging. A wide range of factors severely affected our company's performance, resulting in a very disappointing financial result.

Higher claims costs from more severe and frequent weather events, coupled with the challenge of operating in soft insurance cycles and weakened global financial markets, all combined to reduce profitability across the Australian general insurance industry.

In addition to these industry-wide challenges, one part of IAG's operations in particular has performed below expectation. This business – our mass market distribution operations in the United Kingdom – was affected by the continuing soft cycle in the UK's private motor market, in conditions which have been much slower to recover than widely anticipated.

Decisive action to improve performance

While recognising that all these factors – both external and internal – have adversely affected our financial performance in 2008, the board is not making excuses. Rather, we accept responsibility for this performance, and have taken a number of actions in response.

None of the initiatives we have taken have been easy. They have included changing management, cost savings initiatives, which have regrettably included staff redundancies, and the sale of some parts of our business.

However, with these initiatives in progress, the board and management team are confident that we have entered this current financial year with an improving operational performance, which in turn will lead to improved shareholder returns.

Our confidence is driven by a number of factors.

First, we believe the revised corporate strategy outlined in July by Chief Executive Officer Mike Wilkins will restore value and profitability. We are pleased with the progress made, having already implemented a new business operating model and substantial cost saving initiatives, on which Mike will provide further detail in a few minutes.

We are also making progress with the sale of some of the parts of our UK operations.

While these changes will take some time to work through to the company's bottom line, we expect to achieve an improved insurance margin for the 2009 financial year in excess of 10%[*]. This is significantly higher than the 6.1% we reported in the 2008 financial year.

Second, shareholders should have confidence that IAG remains strongly capitalised. This is a particularly important point given the uncertainty created by the unprecedented turmoil in global financial markets. IAG has a strong balance sheet and holds capital at a level which is surplus to our regulatory requirements. This is without having to rely on any of the $550 million of pre-funded contingent capital, which the Group had previously raised in 2005 to be available for the future - should the need arise, at a time when capital may become a very scarce and expensive resource.

We also continue to maintain the highest financial strength ratings from Standard & Poor's of any Australian based insurer, despite a one notch downgrade to our ratings during the year. Each of our key wholly owned insurers has a rating of 'AA-' with a Stable Outlook, which is a reflection of their very strong financial condition.

And third, we have seen significant change in our executive management team. We have a new Chief Executive Officer, Mike Wilkins, who is extremely well qualified to lead IAG as it embarks on its new direction.

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[*] *Subject to no material movement in foreign exchange rates or credit spreads and no catastrophes or large losses beyond IAG's allowances.*

Mike has more than 25 years of insurance and financial services experience. Before joining IAG 12 months ago as chief operating officer, he was managing director of Promina which was the former owner of insurers AAMI, Vero and Australian Pensioners Insurance Agency.

I would also like to acknowledge our staff, who have continued to act professionally and with our customers' interests at heart, despite the challenges we have faced as an organisation.

Board changes

In addition to the management team and operational changes mentioned above, the board is also undergoing change.

Neil Hamilton and Rowan Ross – both of whom have served on our board since prior to listing – retired on 31 August 2008. These directors were instrumental in guiding the Group through a period of growth and development after demutualisation, and I thank them for their contribution.

In line with our desire to continue to strengthen the composition of the board through the addition of new members with relevant experience, Philip Twyman has been appointed as a director. Philip has extensive business experience, particularly in the insurance sector, working in significant roles in both Australia and the UK. You'll hear from Philip later in the meeting.

As outlined in the annual review, I am standing for re-election this year, as part of the normal rotation of directors.

This decision was made because the board and management believe it is important to provide continuity and stability in the role of the Chairman during the implementation of the major changes in our company's management and strategy.

We recognise, however, that under our board's tenure policy, if I am re-elected, this would be my last term as a director. With this in mind, the board is addressing the need for a planned and orderly succession in the role of Chairman, in accordance with proper governance principles.

I also anticipate there will be additional appointments to the board of directors with relevant experience, in the short term. We will keep you informed as these changes take place.

QBE takeover proposal

Most of you would be aware that QBE Insurance Group made, and then withdrew, a proposal to acquire IAG earlier this year. Given this proposal generated such a great deal of interest from shareholders, the market and the media, I thought it appropriate to provide some remarks.

Contrary to what's been reported, QBE did not make a formal or complete offer, and declined to put a general takeover offer to IAG shareholders which could have been judged by you on its own merits. Instead, QBE insisted it required a unanimous recommendation from the board of IAG to provide the support necessary to carry a scheme of arrangement with shareholders.

It was the board's view that QBE sought to take advantage of the then current negative insurance cycle in Australia to attempt to acquire IAG at a low price, without offering a satisfactory premium to IAG shareholders.

The proposal did not adequately reflect IAG's underlying value or the significant synergies and value which could be created by combining the two companies.

The IAG board acknowledged at the time, and still believes, that substantial benefits could result from combining these businesses and indicated its willingness to explore these potential benefits. However, the proposed price was too low to adequately reflect the inherent value of IAG's businesses and brands. The board could not recommend the proposal to shareholders and, as a result, QBE decided to withdraw it.

Since the proposal was withdrawn, we have focused on driving forward with our new strategies to enhance shareholder value and, as mentioned, we are pleased with the progress to date.

Dividends

The board has decided it is no longer sustainable to continue paying dividends that exceed 100% of our profit.

As a result, we paid a fully franked dividend of 9 cents per ordinary share on 3 October, bringing total dividends for the year to 22.5 cents per share, fully franked. This was 7 cents lower than the previous financial year.

Moving forward, dividends will be based around a target payout range of 50%–70% of reported cash earnings, and will continue to be fully franked for the foreseeable future.

Looking forward

In closing, I would like to restate that improving and sustaining shareholder returns is the main priority of the board and management.

We will be measuring our financial success based on two key targets which we aim to achieve through the cycle – top quartile shareholder returns and a return on equity greater than 1.5 times our weighted average cost of capital. This equates to a return on equity of around 15% through the cycle.

I am confident we are implementing the right strategy and operating structure and have the management team to improve our financial performance.

IAG remains very well capitalised and I believe the actions we are taking should give shareholders confidence that we are rebuilding to create a stronger future for the Group.

Our CEO Mike Wilkins will now make a presentation to you, before we turn to the formal part of the business.