

ADDRESS BY MR BRIAN SCHWARTZ
CHAIRMAN, INSURANCE AUSTRALIA GROUP
2010 ANNUAL GENERAL MEETING
27 OCTOBER 2010

Before we commence the formal business of today's meeting, I would like to provide a brief overview of the Group's performance during the past financial year. I'll then hand over to our Chief Executive Officer Mike Wilkins, who will provide further detail, as well as an update on the Group's outlook for the current year.

Despite having been on the IAG Board for five years, this is my first AGM as Chairman, having assumed the role in August, in line with the transition arrangements we announced at last year's general meeting.

I would like to acknowledge the significant contribution made by our previous Chairman, James Strong, during his nine years with the company. It is an honour for me to succeed James and I look forward to the opportunities that lie ahead for the Group.

OPERATIONAL PERFORMANCE

The 2010 financial year was one of two distinct halves for IAG.

During the first half of the year, steady operational improvement and favourable conditions enabled the Group to report a stronger than expected insurance margin of 13.4%. While operational improvements continued in our home markets during the second half, the impact of adverse events led to a full year result which was lower than the expectations we held at the outset of the year.

In March we helped our customers recover from the destructive storms in Melbourne and Perth which caused major damage and led to a combined pre-tax cost, net of reinsurance, of \$210 million – reducing the full year insurance margin by around 3%.

Then in June, we took the decision to strengthen our reserves for the UK division in response to an increase in bodily injury claims. This issue, which affected the broader UK insurance industry, has resulted in a one-off charge of \$367million, reducing our insurance margin by a further 4%.

While we are confident that we have acted appropriately to limit our exposure to any further claims deterioration via reinsurance, we are disappointed that this has occurred. A significant program of remedial actions is currently underway, led by new CEO Ian Foy, to help restore our UK business to profitability.

Notwithstanding these developments, it has been pleasing to see the continued improvement in our performance in our home territories of Australia and New Zealand. These businesses delivered a combined insurance margin of more than 13%, up from 6.8% in the previous year. This demonstrates that the actions we are taking as part of our refined corporate strategy set in place two years ago have fundamentally strengthened the core of our business.

CAPITAL STRENGTH

Our capital position remains strong at 1.92 times the regulator's minimum capital requirement at year end and we believe it is prudent to maintain this strong position for the short to medium term.

I'm pleased to report that IAG also continues to maintain the 'very strong' financial strength ratings from Standard and Poor's, with 'AA minus' ratings for each of our key wholly owned insurers.

DIVIDEND

The Board declared a fully franked final dividend of 4.5 cents per ordinary share that was paid on 6 October 2010, bringing the total dividend for the year to 13 cents per share fully franked. This is a 30% increase on the 10 cents paid last year, and it represents a payout ratio of just over 70% of cash earnings.

BUSINESS SUSTAINABILITY

Turning to the sustainability of our business, at IAG being sustainable means taking a long term view – assessing future risks and emerging trends, and making sure these inform today's decision making. Long term strength and profitability means managing all of the factors that influence our success. We see these factors as falling into five key areas:

- Our customers;
- Our workforce;
- Our community;
- Our environment; and
- Ultimately, our economic sustainability.

While Mike will provide an update on IAG's performance across these areas, there are two issues around our workforce that I would like to address: executive remuneration and diversity.

Executive remuneration

Last year, I outlined IAG's philosophy on remuneration and explained that our approach is designed to:

- align reward with superior performance, and the performance hurdles are set very high;
- align the management's interests with those of our shareholders; and
- ensure we can attract and retain the right people.

In line with this approach, given the fact that the Group did not perform to expectations during the year, the short term incentive of our Chief Executive Officer, Mike Wilkins, decreased year on year.

Under the long term incentive plan, however, executives have the opportunity to be rewarded over time, if, and only if, IAG meets challenging return on equity and total shareholder return performance hurdles.

When disclosing executives pay in our annual report, statutory accounting standards require the Group to include an estimated value of long term incentives, even when such payments have not actually been made because the hurdles have not been met. This can cause confusion and give a misleading impression of actual amounts paid during the year.

I feel it is important to emphasise that when setting remuneration, the board has quite deliberately placed a greater weighting on long term incentives to drive long term performance. If long term incentive payments are made in the future it means the Group is substantially outperforming, to the benefit of all of us.

During the year we have also taken steps to strengthen the way we manage, measure and reward the performance of each individual employee, so that every person's objectives are aligned with those of the Group and ultimately, you, the shareholders.

Diversity

Turning to diversity, I firmly believe companies cannot deliver on their strategy or serve their customers without a balanced team that draws from all areas of the community, regardless of gender, age, ethnicity or other consideration.

If our workforce is distorted in favour of particular groups we simply are not maximising our exposure to the talent pool and not giving ourselves the best chance to succeed.

IAG is an early adopter of measures to ensure the diversity of our workforce, but we constantly look to ways we can improve. To this end, IAG has recently taken the decision to constitute a senior-level Diversity Working Group, to be chaired by CEO Mike Wilkins and on which I will sit as well, to map out and implement a Group-wide approach to diversity that reflects our desired position.

One of the early goals we have set, is in the area of gender diversity. While we are pleased that the number of women in senior management positions is ahead of the market, we have targeted an increase in this number from over one in four to at least one in three, by 2015.

REFORM

IAG has been actively involved in a number of other areas of reform during the year with the aim of favourably shaping the operating environment for our customers, shareholders and the community more broadly.

We are particularly pleased that our efforts to highlight the unfair tax burden on insurance have delivered two significant wins for our customers and the insurance industry at large.

First, the Victorian Government has agreed to abolish the Fire Services Levy in favour of a scheme that funds fire services via a broad-based property levy from July 2012. Previously, only those people who made the prudent decision to insure their property were paying for fire services, a clearly inequitable position.

And second the NSW Government announced its decision to abolish the Insurance Protection Tax from next July. This tax was introduced to help fund some HIH Insurance policies affected by the collapse of HIH. As insurers were prevented by law from passing on the cost, this was effectively a tax on IAG shareholders, in the order of around \$20 million annually.

Nationally, Australians pay over \$4.25 billion worth of tax on insurance policies. This burden naturally contributes to high levels of underinsurance, which significantly affects the community's ability to recover from a major disaster and increases the reliance on taxpayer support following such events.

The reforms I've mentioned are clearly significant steps in the right direction. We welcome them, but there is more to be done. With NSW the last remaining State to rely on an inequitable Fire Services Levy we continue to encourage action, and we encourage a broader Federal-State dialogue on taxation arrangements to assist further reform of narrow and inefficient taxes like stamp duty on insurance.

Finally, IAG has been one of a number of companies advocating for reform to prevent use of our shareholder register by those seeking to take advantage of shareholders through significantly undervalued and unsolicited share offers. Given our large retail shareholder base we have taken a leading role in this campaign and I'm pleased to report that the introduction of legislation to achieve this was one of the first bills introduced to the new Federal Parliament.

OUTLOOK

Turning now to the future. While there is much to be looking ahead to, the Board remains mindful that our full year result does not reflect the true performance of this business.

We continue to be encouraged by the strong progress CEO Mike Wilkins and the executive team have made in driving improvements in operational performance – especially in our home markets of Australia and New Zealand. I would like to thank them and indeed every person throughout the organisation for the part they have played in driving progress in a difficult year.

The 2011 financial year will be the third year of our three year turnaround strategy which we announced in July 2008. We are confident our strategy and the discipline with which we are executing it, will deliver ongoing and sustainable benefits to shareholders. Indeed, this confidence is borne out by our experience in the first quarter of the current financial year. And you can be assured that we are also focused on the next phase of our strategy for growth.

I am pleased to invite Mike to now provide some remarks.