

**Address by Mr James Strong, Chairman
Insurance Australia Group Limited
2006 Annual General Meeting
15 November 2006**

Introduction

Before we begin the formal part of the meeting today, I would like to provide an overview of Insurance Australia Group's performance for the 2006 financial year, with a particular focus on our significant progress against our five year strategy and our corporate governance framework.

I will then ask Chief Executive Officer, Michael Hawker, to provide a more detailed review of the operations of the company, an analysis of our operating environment and an update on our outlook for the current year.

Achieving sustainable results

I'm pleased to report that IAG again delivered a solid performance for the 2006 financial year, despite facing one of the most challenging operating environments in many years.

We recorded a net profit after tax of \$759 million and our second-highest annual insurance margin and return on equity since listing.

We achieved this by adhering to core strategies, including;

1. maintaining high customer retention in all major portfolios, and
2. adhering to risk and underwriting principles, rather than chasing unprofitable business to build market share.

We contained our expenses, and achieved record investment returns on our shareholders' funds, driven by buoyant equity markets and the additional value generated by our asset managers.

We also benefited from the first financial contribution from our recently acquired Asian operations.

Dividends and shareholder return

On the back of this performance, the Board was able to deliver on its aim to increase dividends by double digits: a fully franked final dividend of 16 cents per ordinary share was declared and paid on 9 October 2006. This brings

ordinary dividends for the year to 29.5 cents per share, representing an 11.3% increase on the previous year.

The continued strength of IAG's financial position allowed for an additional special dividend of 12.5 cents per ordinary share which was paid in June 2006, returning \$200 million in surplus capital to shareholders. When added to ordinary dividends, total dividends for the year reached 42 cents per share.

For those of you who have been shareholders since 1 January 2002, your total return at 30 June 2006 was 104.4%. This ranks IAG 25th of all companies in the S&P/ASX 100 index who have operated throughout the same period – something your Board and management are very proud to report.

Delivering on strategy

We have achieved this performance by delivering on the five-year corporate strategy we committed to in 2002.

At that time, we recognised the need to generate scale in Australia and New Zealand, and to diversify our business by geography, product and distribution channel to spread our

risks and generate sustained competitive levels of profitability.

The first and most sizeable step we took was the acquisition of CGU and NZI four years ago, leading to our current position as the largest underwriter, in terms of local gross premium, in Australia and New Zealand. These acquisitions have delivered very significant value for shareholders.

We also recognised the need to move further offshore so we could continue to grow in line with our international peers. However, we have taken a slower and more cautious approach to offshore expansion. Initially we focused on Asia and motor insurance, our core capability. We spent considerable time undertaking extensive research and building relationships.

As a result of that work, over the last 18 months we acquired interests in Thailand, Malaysia and Singapore, and we are seeking to complete a major investment in China's second largest general insurer, China Pacific Property Insurance.

During the past year we also established a team and infrastructure to continue to grow and manage our Asian interests.

Meanwhile we have been investigating opportunities in other regions. Taking into account industry structures, and the attractiveness and availability of particular entities, the UK market was identified as a current priority.

We have maintained our focus on motor insurance as a lead product and in September we announced the next step of our international growth strategy, with the acquisition of the Hastings Group in the UK. Hastings is the UK's 5th largest motor insurance broker, with a strong and distinctive brand name in the motor insurance market, and with plans to expand into other products. We are confident that this acquisition gives us the perfect entry point to the UK market and is a good deal for you, our shareholders.

Corporate governance

To ensure we create value for our shareholders in a sustainable fashion, we are committed to the highest standard of corporate governance. Our corporate governance structure and risk management framework is designed to provide a sustainable balance between our

core operating purpose – understand and price risk, pay claims, manage costs and reduce risk – and our responsibility to provide fair and stable returns to shareholders.

Our approach to governance is based on the view that it must be more than just compliance. While we already have the systems to help comply with a multitude of regulations, codes, rules and practices which govern how we operate, we believe the best protection is a healthy risk management culture based on strong values and a commitment to achieving the company's goals.

To achieve this, the company promotes a culture that rewards transparency, honesty, merit, teamwork and social responsibility.

During the past year, our corporate governance framework has continued to evolve in response to changes in our operation and as a result of our ongoing international expansion. Foremost has been the formation of a new committee, the International Advisory Panel. The panel is comprised of me as chairman, some other members of the Board, senior executives and external advisors.

A key part of the Panel's role is to ensure our governance framework is effective in addressing issues that may arise in the course of our international expansion, as well as to deal appropriately with an expanded Group.

The Panel provides advice and support to the Group's executives to assist them, particularly in the area of culture and relationships, in the effective execution of the Group's strategy of building an international portfolio of general insurance businesses in regions and countries outside Australia and New Zealand.

We are also upgrading our risk framework to cater for our growing portfolio of international interests. Managing risk is at the heart of ensuring IAG's ongoing sustainability and delivery of value to shareholders. Our risk management framework is based on the interaction of the oversight structure, internal policies, key risk management processes and culture.

Our Directors have a constant focus on these important issues and I would like to thank each of them for their consistent contribution over the course of the year.

Board Membership

I take this opportunity to indicate that the Board is planning for the future in terms of its own membership and composition. We will be strengthening the level of international insurance experience as we approach a period when a number of existing Board members will reach the end of the normal expected period of Board service, as indicated in our Board Charter. It is important for us to present to you as shareholders a very capable and skilled Board to ensure continuing high levels of governance and strategic decision-making.

Resolutions

As noted in the Notice of Meeting, Resolutions 1 and 2 ask you to vote on the re-election of two Directors – Neil Hamilton and myself. Neil and I are retiring by rotation in accordance with company's Constitution, and are offering ourselves for re-election. Neil and I will not participate in this particular vote and I will pass the role of chairman of the meeting to Rowan Ross during the discussion of this matter.

In line with the requirements of the Corporations Act, Resolution 3 gives you the opportunity to vote for the

adoption of the remuneration report, which is located within the annual report.

As noted in the report, IAG's executive remuneration policy is designed to ensure we can attract and retain the best people and reward performance in line with returns delivered to shareholders. Building and retaining a high quality management team has enabled us to achieve superior long term performance. The principles underpinning IAG's approach to executive remuneration are consistent with our values, and take into account external market practice and internal relativities. The mix of fixed and variable remuneration reflects the impact of each executive position on IAG's short and long term results.

For all IAG employees, our remuneration has to be competitive to ensure we attract and retain the right talent, focused on the delivery of sustainable value to our shareholders.

I believe the strength of our executive team will carry the company forward into its next phase of growth.

Looking forward

We are excited by the opportunities international expansion offers the Group, to take our expertise to other markets and glean insights for our existing markets at home and in Asia. We are continuing to explore opportunities to generate global scale, by building a portfolio of assets throughout international insurance markets.

We are also confident about opportunities for our businesses throughout Australia and New Zealand. We anticipate that strong competition will continue, but we are well placed for the future to maintain our leading market position.

On behalf of the Board, I would like to take this opportunity to express appreciation to Michael Hawker and his executive team. IAG's performance is a reflection of their dedication and leadership, which has helped to create an enthusiastic and productive workforce. I would also like to thank all our people for their contribution to our success in 2006.

And I would like to thank my fellow Board members. It has been my pleasure to work with this group of committed and experienced people.

The current year promises new challenges and opportunities for us in steering the future course for your company.

Finally, I would like to thank you, our shareholders, for your continued support. I can assure you that the Board is fully committed to playing a strategic role in driving the company to achieve our aim of delivering top quartile shareholder return.