2021 Annual General Meeting

22 October 2021

Chairman's address to 2021 AGM

Ms Elizabeth Bryan AM
Chairman, Insurance Australia Group Limited

To be checked against delivery at 2021 AGM, starting at 9.30am AEDT, 22 October 2021

Slide 1 – Title slide

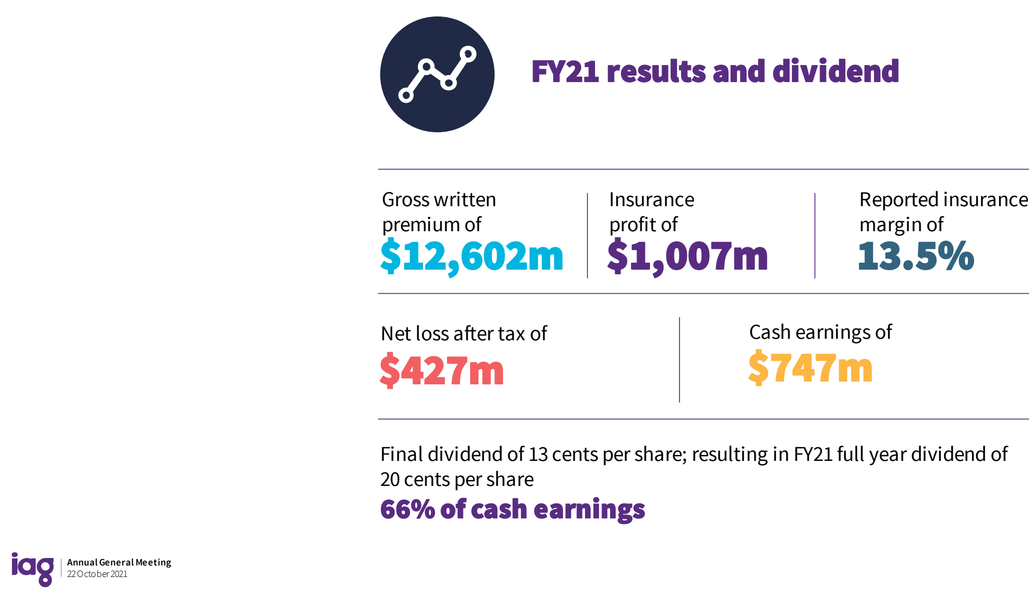
Ladies and gentlemen.

Both this year and last year have been challenging for IAG, producing results that have been disappointing for our shareholders, and for all the stakeholders I am speaking to today.

In my written report to you contained in the FY21 Annual Review, I was candid about what had gone wrong for IAG and how management and the Board had responded. I sought to give you comfort that we are on top of the problems, understand their origins and take accountability for fixing the underlying organisational issues.

To further allay your concerns, I outlined the changes that are being made to the Board, the management team and to the structure of the company, and I pointed out the good financial results we had this year in our underlying insurance business.

Slide 2 – FY21 results and dividend



I don't propose to reiterate all of that in my address to you today, although no doubt certain parts will come up in discussion. The slide beside me summarises the key results for the year.

IAG made a net loss after tax of $427 million in FY21. The result was materially affected by pre-tax provisions, first, for potential Business Interruption claims associated with the COVID-19 pandemic; second, for customer refunds arising from past pricing issues; third, for the settlement of the Swann Insurance Class Action; and finally, for payroll compliance. These provisions reduced this year's pre-tax profit by approximately $1.5 billion.

However, we must not lose sight of the fact that behind these provisions, there is a successful business that made an insurance profit this year of a little over a billion dollars, an insurance margin of 13.5% and cash earnings of $747 million.

Shareholders have incurred lower returns as a result of both the lower dividend last year, and the fall in our share price. The Board deeply regrets these impacts on our shareholders, and on behalf of the Board, I repeat the apologies I offered in my annual letter.

I believe that this justifiable shareholder displeasure will be expressed as a vote against our Remuneration Report later in this meeting.

In particular, many shareholders have been very critical of the fact that the Board supported bonuses being paid to our employees this year. As well, shareholders are concerned that our accounting treatment will support long-term incentive rewards into the future.

The Board respects the shareholder views that have led to votes against our Remuneration Report, and will work diligently to ensure shareholders do not feel they need to take the same action next year. The Board will also be mindful of the impact on long term incentive rewards, and continue to take shareholder returns into account when it applies judgement.

It would be remiss of me, however, not to explain to you why the Board thought it was the right thing to reward our employees this year. And to say to you that we continue to believe that it is in the best interest of the company that we took this step.

I don't expect to change the outcome of the vote on the Remuneration Report when we come to that item of business, but I do want to leave you all with some understanding of what we were trying to achieve on behalf of the shareholders, and an appreciation of the many factors that need to be taken into account in setting up a large business for success.

In summary, the Board had three objectives:

- to return to a reliable dividend stream;
- to hold to account the executives who were directly responsible for the operational risk failures that damaged the 2020 and 2021 financial results, particularly Business Interruption, the Swann Class Action, and pricing errors;
- and to ensure a stable leadership team and to recognise our employees' commitment and contribution over the last two years, by returning to a more typical STI outcome.

Slide 3 – Board objectives and judgement applied

Board objectives for FY21 remuneration

- Return to a reliable dividend stream;
- Hold to account the executives who were directly responsible for the operational risk failures that damaged the 2020 and 2021 financial results, particularly business interruption, the Swann class action, and pricing errors; and
- Ensure a stable leadership team and recognise our employees' commitment and contribution over the last two years, by returning to a more typical STI outcome.

Judgement applied by the Board

- Full year dividend restored to a payout ratio of 66%;
- Severe penalties for executives who were accountable for the operational failures leading to provisions; and
- Decision to pay employee bonus at 60% of maximum STI pool.

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We came to a judgement about how to achieve all these objectives:

- we restored the final dividend to achieve a full-year payout ratio of 66 percent;
- we severely penalised those executives who were accountable for the operational failures leading to provisions;
- and we made the decision to pay the employee bonus at 60 percent of our maximum STI pool.

Slide 4 – Factors behind the Board's decisions

Factors behind the Board's decisions

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1 Accountability

- Severely penalising executives held accountable for the serious risk failures in the company
- Adjustments of $6.9 million to date, including $3.5 million relating to decisions made by the Board in August 2020

2 Fairness

- FY21 provisions arose from issues dating back many years; many did not come to light until at least 2019
- Many of today's management team are relatively new and have been instrumental in bringing the issues to light and remediating them
- Desire to reward the new management team for the difficult work of remediation and reassure them that past errors would not continue to affect their IAG futures

3 Motivation

- Judgement applied to FY21 remuneration outcomes, considered FY20 as well
- FY20 marked by high natural perils, investment income losses from COVID-related financial market volatility and high expenditure to support risk remediation program
- No employee bonuses or final dividend in FY20
- Decision had negative impact on employee morale after a year of dealing with extreme bushfires and COVID19

There are three factors that weighed on the Board's decision making when it came to employees. They were accountability, fairness and motivation. I would like to quickly take you through these considerations.

First, Accountability.

Our starting point in remuneration discussions was to severely penalise executives who we held accountable for the serious risk failures in the company.

We held to the principle that senior executives should be held responsible for failures on their watch and made significant downward adjustments to their remuneration, including to remuneration which was deferred from prior years.

These adjustments total $6.9 million to date, including $3.5 million relating to decisions made by the Board in August 2020. To give you an example of the power of these measures, one individual's forfeiture was equal to more than twice their annual base salary.

Importantly, no member of the senior leadership team with direct accountability for the operational risk matters is still employed at IAG.

Second, Fairness.

The provisions we took this year arose from issues within IAG's systems which date back many years. Many of them did not come to light until at least 2019.

The timing is critical in assessing how much blame should be laid at the feet of today's management team, many of whom are relatively new to the organisation and have been instrumental in bringing the issues to light, and in remediating them.

We have a new leadership team that has carriage of the remediation of all the matters that led to our losses. As I said earlier, the majority of these matters relate to problems that go back many years, before many of them joined the company.

We wanted to reward the new management team for the difficult work it had done in remediation and reassure them that the errors of the past would not continue to affect their futures with IAG.

Third, Motivation.

To understand the judgement that we applied to the FY21 remuneration outcomes, it is important to consider FY20 as well. We did not pay employee bonuses in FY20, nor did we pay a final dividend to our shareholders.

FY20 was a year of high natural perils, investment income losses from COVID related financial market volatility and high expenditure to support the risk remediation program.

Our decision not to pay bonuses in FY20 had a negative impact on employee morale.

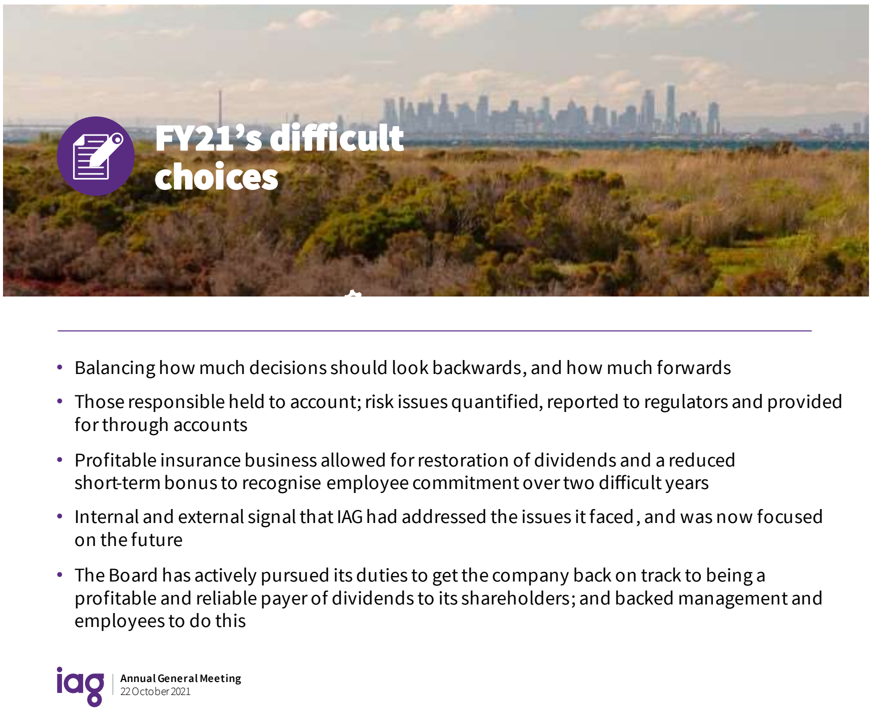
In practical terms, it meant that our employees who had worked with extraordinary commitment and, in some cases, great courage, through the worst bushfires Australia has experienced, received no additional financial recognition.

These same employees had also moved quickly to working in a COVID environment, while continuing to deliver on-the-ground services to customers who rely on us.

In any other year, the Board might well have sought to recognise this level of contribution and commitment to our customers and community through bonuses at a higher level than the financial outcomes dictated.

IAG shares its bonus pool throughout its employees. Nearly 11,000 people are eligible for our short term incentive payments which, below the Group Leadership Team, averaged about $9,000 this year.

Slide 5 – FY21's difficult choices



As you can see, the FY21 results set up difficult choices for the Board. We had to balance how much our decisions should look backwards, and how much forwards.

We held those responsible to account. Underpinned by our profitable insurance business, we restored dividends and paid a reduced short term bonus to recognise the commitment of our employees over two difficult years.

We had worked throughout the year to quantify our risk issues, report them to regulators and take appropriate provisions through our accounts.

We had supported major changes within the organisation. With the appointment of a new CEO, the company strategy has been renewed, its operating structure reformed, and the leadership of our three main operating divisions changed.

In weighing all of this up, the Board came to the view that it was in the best interest of the company to set it up for the future.

In short, we drew a line in the sand and moved to a focus on improving future performance, having dealt with historical failures.

Our view, which we hold strongly, is that the choices we made in FY21 were the right decisions for the company and for shareholders.

In restoring dividends and paying a short term incentive bonus, the Board signalled both externally and internally that IAG had addressed the issues it faced, and was now focused on the future.

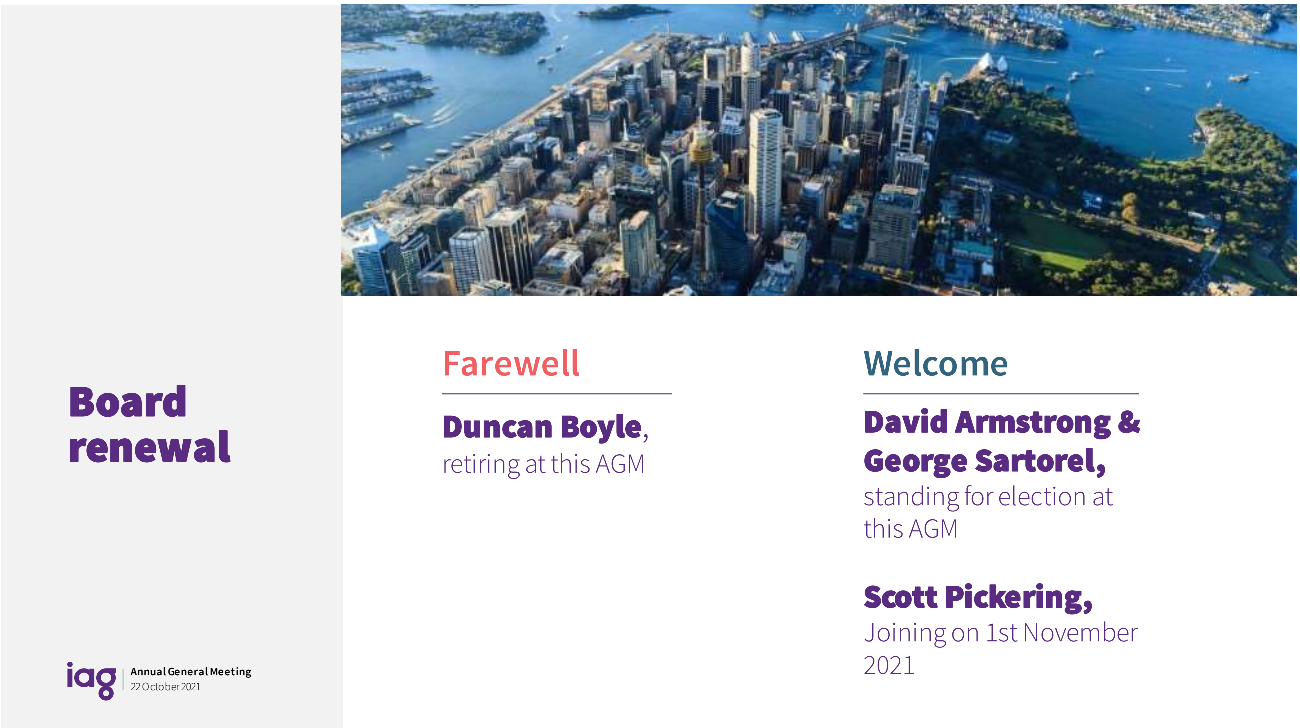
Whether they are Board members, or shareholders, all of those invested in a company have to make judgements about different factors that extend beyond its operations. As with all judgements, it is possible to strike many different balances.

I hope my comments make it clear that the IAG Board has been very active in pursuing its duties to get this company back on track to being a profitable and reliable payer of dividends to its shareholders. The Board has backed its management and employees to do this.

I will close my comments on remuneration by reminding shareholders that the Board has initiated an independent review of IAG's remuneration framework, and this will include STI and LTI measures and targets.

The review was described in the Remuneration Report. It is intended to ensure the framework continues to support IAG's business strategy, while also complying with emerging regulatory requirements such as CPS511 and FAR.

Slide 6 – Board renewal



Let me now turn to the Board.

The business will be well-supported in its endeavours by a renewed Board.

As we have advised you, I will retire at the end of this meeting, along with my colleague, Duncan Boyle. I thank Duncan for his contribution to IAG over this time of very significant change in the organisation.

Duncan has had a long executive career in the insurance industry and has been unstinting in his support of the Board, and me personally, in navigating through many issues. As Chairman of the Risk Committee, Duncan played a big role in strengthening risk governance in IAG. Thank you very much indeed Duncan.

We have been fortunate to be able to add to the Board three new Directors who bring deep insurance and public company governance experience to their roles, and whose skills supplement those of the existing Directors.

The new members of the Board are David Armstrong and George Sartorel, who we welcomed to the Board on 1 September 2021, and Scott Pickering, who will commence on 1 November 2021. David and George are standing for election at this meeting, and you will have an opportunity to hear from each of them shortly.

Farewell

When I cease to be Chairman at the conclusion of this Meeting, I will be pleased to hand over the Chairmanship of this very special company to my long-term colleague on the Board, Tom Pockett.

Tom has expertly led the Audit Committee through the past years of change and remediation, and I know he is well-positioned to lead IAG into a successful future, supported by a strong Board, and our CEO and his skilled leadership team.

Through its various businesses, IAG has been helping to protect and support its customers and their communities for over 160 years, making it a vital part of both Australia's and New Zealand's financial and social infrastructure. I am honoured to have been a part of that endeavour.

I am confident the company is well-placed to continue to play a strong role in the service of all its stakeholders, and as a loyal customer, and as a shareholder, I look forward to keeping a close eye on its future success.

This release has been authorised by the Chairman of Insurance Australia Group Limited.

About IAG

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia and New Zealand. The Group's businesses underwrite over $12 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand). IAG also has an interest in a general insurance joint venture in Malaysia. For further information, please visit www.iag.com.au.

Media

Amanda Wallace
Mobile. +61 (0)422 379 964
Email. amanda.wallace@iag.com.au

Investor Relations

James Coghill
Mobile. +61 (0)412 426 272
Email. james.coghill@iag.com.au

Insurance Australia Group Limited

ABN 60 090 739 923
Level 13, Tower Two, 201 Sussex Street Sydney
NSW 2000 Australia
Telephone. +61 (0)2 9292 9222
www.iag.com.au