

IAG Annual General Meeting 2009 Transcript
10 November 2009



CORPORATE PARTICIPANTS**James Strong***Insurance Australia Group - Chairman***Michael Wilkins***Insurance Australia Group - CEO***Glenn Revell***Insurance Australia Group - Company Secretary***Yasmin Allen***Insurance Australia Group - Independent Non-Executive Director***Phillip Colebatch***Insurance Australia Group - Independent Non-Executive Director***Brian Schwartz***Insurance Australia Group - Independent Non-Executive Director***Alex Christie***Insurance Australia Group - Deputy Head, HR***AGM PARTICIPANTS****John Hogben***Shareholder***Joe Nagy***Shareholder***Brian Gates***Shareholder***Ian Skandrett***Shareholder***Zahir Batash***Shareholder***Michael Perry***Australian Shareholders Association - Representative***Kevin Daley***Shareholder***Cecelia Cook***Shareholder***Gregory Simoni***Shareholder***Peter Starr***Shareholder***John Hope-Allen***Shareholder***David Saville***Shareholder***Ian Halan***Shareholder***Keith Isan***Shareholder*

PRESENTATION

James Strong - Insurance Australia Group - Chairman

Ladies and gentlemen, can I welcome you all to the 2009 Annual General Meeting of the Insurance Australia Group Limited. It is past the appointed time and the Company has informed me that a quorum is well and truly present, so I'd like to declare this meeting open.

My name is James Strong. I am the Chairman of Directors of Insurance Australian Group Limited, and in accordance with the Company's constitution I am Chairman of this meeting. I would like to introduce the other directors who are on stage -- Yasmin Allen, Phillip Colebatch, Brian Schwartz, Michael Wilkins, CEO. Glenn Revell is our Company Secretary and will be helping us with the conduct of the meeting. Then we have Anna Hynes and Philip Twyman.

Now, I'd just like to apologise -- there is one director who is not here, who is Hugh Fletcher, who is from New Zealand; and he was here yesterday and participated in our board meeting yesterday, but unfortunately a very close friend of his perished in a fire and he's had to go back for the funeral. So, on his behalf, can I apologise. But I assure you that he has participated in all of the Company affairs as normal and right up to last night when he went back for the funeral.

Also, I'd just like to recognise and welcome shareholders who are viewing this meeting via the webcast.

Before we commence the business of the meeting today, there are two housekeeping matters that I'd like to mention. The first is that IAG is again using online voting technology following the introduction at last year's AGM when it worked quite well. Shareholders, corporate representatives and proxy holders attending the meeting were provided with a keypad and a data card when completing the meeting registration process. The keypad will be used to record your voting intentions on each item of business put to the meeting today.

A representative from the service provider will give a brief instruction on the use of this technology prior to the resolutions that require you to vote today. Staff will also be available at this time to assist shareholders if required. The use of the keypad technology will help to speed up the counting of votes as compared to the traditional paper based method.

So having had my phone go off, can I remind everybody else they should turn them off? That wasn't a very good example, was it?

This is quite an important point, if you are unable to remain for the duration of the meeting and vote on each resolution when the polls are taken, you will still be able to register your voting intentions on a voting card at a desk located just outside the auditorium when you leave the meeting.

The second housekeeping item that I'd like to refer to is that shareholders, visitors and members of the media are advised that in the absence of special permission, I will not allow any recording or broadcasting device to be used during the proceedings of this meeting.

I now declare the polls to be open for this meeting.

I would like to commence the formal part of the meeting by presenting to you a brief overview of IAG's performance for the 2009 financial year. After I have done that I will ask Michael Wilkins, our Chief Executive Officer to give you a more detailed review of the operations and the financial performance of the Company.

So I will move to the podium just to deliver the Chairman's address



Before we commence the formal business of the meeting, I would like to provide a brief overview of the Group's performance in the 2009 financial year. I will also review the recent developments in succession planning for our Board.

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

In terms of our financial performance, the Company delivered encouraging financial results for the 2009 financial year due to the wide range of decisive actions taken after the Group's disappointing performance in the previous financial year.

Importantly, we have made good progress implementing the corporate strategy announced in July 2008, which set a clear and different direction for the future. This has involved a number of quite tough decisions, including significant management and operational changes and the sale of some parts of our business in the United Kingdom.

The Group's operating model has been simplified and now better aligns our business with customer needs. This has also enabled substantial cost savings to be achieved and increased efficiency in the way in which the Group operates.

We have focused on our core businesses in Australia and New Zealand, ensuring that we're selecting and pricing risk appropriately, containing costs and delivering superior customer experiences.

In Asia we've continued to invest for future growth opportunities, such as our joint venture with the State Bank of India. There is still a lot of work to be done, however IAG's 2009 financial results reflect the early benefits of our refined strategy in the year to 30 June 2009.

Group revenue measured by gross written premium increased to AU\$7.8 billion. The insurance margin increased from 5.4% to 7.1%, and net profit after tax was AU\$181 million compared with a net loss of AU\$261 million in the previous year.

It's important to recognise that these promising results were achieved against a backdrop of continuing challenging financial and industry conditions. This included unprecedented volatility in global financial markets, a steep decline in interest rates and high claim costs from natural perils, yet again.

When the Group outlined its refined strategy last year we could not have anticipated the full impact of the deteriorating economic environment, nor could we have predicted the devastating consequences for our customers from some of Australia's worst natural perils on record, most notably the Victorian bushfires of February 2009.

Our improved performance despite these adverse events gives us confidence that our underlying business is moving in the right direction. It is also a tribute to the leadership provided by Michael Wilkins and his executive team and the hard work and dedication of the staff of the Group.

In relation to capital management, it was important for IAG to strengthen its capital position during the year because of the unprecedented volatility in global markets, which I mentioned earlier. Our success in raising more than AU\$530 million from institutional and retail shareholders in the second half of the financial year confirmed the market's support for our strategies.

At 30 June 2009 IAG had 1.79 times the minimum level of capital required by the industry regulator, APRA. In addition, assuming we receive approval next month for a proposal related to our contingent capital high-bred securities, on a pro forma basis the capital we held at that date would increase to more than double the minimum level required.



IAG also continues to maintain the highest financial strength ratings from Standard & Poors for any Australian based insurers, with AA minus ratings for each of our key wholly owned insurers. In summary, the Group remains very strongly capitalised.

In terms of dividends the Board declared a fully franked final dividend of AU\$0.06 per ordinary share, which was paid on 2 October 2009. This brought total dividends for the year to AU\$0.10 per share fully franked. This represents a payout ratio of 71.5% of cash earnings, which is slightly above the target of approximately 50% to 70% of cash earnings that was outlined in the dividend policy introduced by the Board during the financial year.

Board and executive remuneration -- there was no increase in the overall fees received by IAG directors during the 2009 financial year and no increase is planned in the current financial year. In fact, the last increase in board fees was in 2007. Similarly, there will be no increase to fixed pay for the chief executive officer and the executive team in the 2010 financial year.

The Board made a number of changes to executive remuneration policy during the year, including setting a maximum value for short-term incentives and adjusting the performance hurdles for long-term incentives.

Brian Schwartz, who is Chairman of the Nomination, Remuneration and Sustainability Committee, will speak to you in more detail about our approach to remuneration before you're asked to vote on the fourth item of business of today's meeting, the adoption of the remuneration report. After Brian's presentation you will be invited to ask questions about the report and our policies.

Turning to the question of board succession and renewal, last year at this AGM I indicated that the Board, including the CEO Mike Wilkins, had agreed on the need for stability in the chair position during the implementation of our revised strategy and the big changes in management and governance of the Company.

I also informed you as shareholders when I was re-elected last year, under the Board's tenure policy, that this would be my last term as a director and that the Board had already commenced planning for an orderly succession in the role of chairman. The Board, in addition to its own deliberations, used professional advisers from outside and undertook external benchmarking to assist in this important transition, which we've done very thoroughly over the period since the last AGM.

As a result of this process the Board has unanimously agreed to appoint Brian Schwartz as Deputy Chairman of the Board. Brian will take over the role of Chairman when I retire at the end of the current financial year. This timeframe will ensure a very smooth transition process. I'd like to thank my fellow board members for the very professional way in which we've conducted this within the Company.

As most of you know, Mr Brian Schwartz has had an outstanding career in business. He has been a director of IAG since January 2005 and is Chairman of our Nomination, Remuneration and Sustainability Committee. He is also a director of Brambles Limited and Westfield Group. Previously he was the Chief Executive of Investec Bank Australia and also prior to that the CEO of Ernst and Young Australia. He was appointed a member of the Order of Australia in 2004 for his services to business and the community. His fellow board members believe that Brian's already demonstrated a significant contribution as a board member, and I personally believe he'll be an excellent chairman. He has the key qualities to chair the Board, which I believe centre mainly around competence, commitment and an open and engaging approach in dealing with the Board itself and with the management. We do expect to appoint another director next year and will make an announcement as soon as that appointment is made.

Turning to the outlook, over the past year whilst facing numerous and substantial challenges we have rebuilt the fundamentals of our business and positioned the Group well to further restore value and profitability. The group's 2009 financial results were encouraging and I am confident that the improvements evident in our underlying performance will continue in the year ahead and deliver stronger



returns for shareholders. Michael will make some more remarks about that in his address. In often very difficult circumstances our people have worked hard to make IAG a more efficient and professional business, and the Board would like to thank our staff for their sustained efforts during those trying conditions. I look forward to continuing to work with the Board and executives as we continue to improve the performance of the Group. I'll now ask Michael, our Chief Executive, also to make a presentation to you before we start the formal business. Thank you very much Michael.

Michael Wilkins - Insurance Australia Group - CEO

Thank you James and good morning ladies and gentleman. I also thank you for attending our annual general meeting here today. During my presentation this morning I want to speak about three things -- firstly, the results that we've achieved to date as we execute the refined corporate strategy that we've now put in place at IAG; secondly, some of the challenges that we are facing, not just at IAG but indeed the insurance industry faced during the 2009 financial year; thirdly, the outlook for the current financial year.

When I consider the year in review, the 2009 financial year, I'm very proud of how much has been achieved at IAG in a relatively short period of time. At the outset of that financial year we acknowledged that the Group had been underperforming and in response we refined our corporate strategy and we set clear priorities to rebuild profitability. You may recall from last year's AGM we outlined the core elements of our strategy. We said that we needed to improve the performance in our home territories of Australia and New Zealand.

On that front I'm pleased to report that our largest business, the direct to the public insurance business that we have in Australia, grew its revenues by 9.1% during the 2009 financial year and improved its insurance margin or delivered an insurance margin of 12%, which is an improvement in that margin of 18%. At the same time we achieved our targeted AU\$130 million in pre-tax run rate cost savings in Australia as well as making significant progress in improving the underwriting and pricing disciplines in our CGU and New Zealand businesses.

Our second priority during the year was to pursue selective general insurance growth opportunities. In 2009 we increased our shareholding in our Malaysian joint venture from 30% to 49% and we also signed a joint venture with the State Bank of India and we're on track to write our first policies in India early in calendar 2010. At the same time we also launched our new online business The Buzz, and I'll say a little bit more about The Buzz later in my presentation.

In terms of improving our performance, we also sold our poorly performed mass market distribution businesses in the UK and allowed us to scale back our operations in that country to our specialist underwriter Equity Redstar. That business continues to perform very well.

Finally we said we would improve the operational performance and execution and we've done this primarily through putting in place a new operating model and the associated disciplines, which accompany that model. I am pleased to report that all of those initiatives are delivering the initial signs of success and certainly they delivered an improved financial result in 2009.

As the Chairman's already said, our revenue grew to about AU\$7.8 billion. When we measure that revenue by gross written premium that was an increase of about AU\$49 million or just under 1% during the course of the year. However, if we exclude the businesses that we exited as well as allowing for foreign exchange movements, the growth in our gross written premiums was higher at around 4%. Our insurance profit increased by AU\$31 million to AU\$515 million for the year and that represents an improved insurance margin of 7.1%. Our net profit after tax increased to AU\$181 million, which was a significant turnaround on the AU\$261 million loss that was recorded in the previous financial year. I've included this slide to demonstrate the improvement in the Group's operating performance. At IAG like all insurance companies over the course of the last couple of years, there have been a number of moving parts in our result, including reserve releases, natural perils and the impact of volatile investment markets.



However, for us during 2009 the impact of all of those things roughly cancelled each other out. What's left and what's circled on this slide is a 310 basis point improvement, 3.1% on our margin, which was an improvement in our operating performance. That's as a direct result of the revised strategy that we're pursuing and it's the basis upon which we believe that we can deliver an even stronger result in 2010.

IAG ended the year in a very strong capital position, which is an important attribute in this current period of economic volatility and uncertainty. The level of our capital at the 30th of June 2009 increased to 1.79 times the regulatory minimum that we're required to hold. That reflected three key factors. Firstly, we raised AU\$534 million of new capital during the year and that was done through an institutional placement and a share purchase plan for retail shareholders. At the same time we repurchased £144 million worth of UK subordinated debt and we repurchased that at a 30% discount to its face value.

Then, finally, and as the Chairman has mentioned, we implemented a revised dividend policy where we now pay out approximately 50% to 70% of our cash earnings. This level of capital at 1.79 times our regulatory minimum is slightly above the long term targets that we have for our organisation. However, it's our current intent to remain overweight in the medium term while the current economic conditions prevail. IAG continues to hold an A+ rating from Standard & Poors at a group level and holds AA- ratings for all of the key wholly owned operating subsidiaries that we have as a group.

While the improvement to the Group's financial results are very encouraging, two key external factors being the global financial crisis and natural perils, adversely affected our performance. There's no doubt the performance of our industry like most around the world has been affected by the global financial crisis. However, the insurance industry in Australia has fared comparatively well as our regulatory framework and in particular the risk based capital regime that's embodied in that framework, has ensured participants have remained strongly capitalised. For IAG the primary impacts from the global financial crisis have been lower investment yields and falling equity markets.

Lower yields reduced our insurance profit by around AU\$50 million during the 2009 year. In addition, our shareholders funds suffered a pre-tax loss of AU\$39 million compared with a profit of AU\$24 million in the previous year. To lessen the adverse impacts of the global financial crisis we adopted a more conservative investment approach. We reduced the amount of our portfolio and our portfolio stands at about AU\$10.6 billion at the moment, we reduced the portion of that portfolio that was invested in equities to just 6% and increased the portion invested in cash and fixed interest securities to 94%. We also ensured that the credit quality of our investments was high with over 94% of our cash and fixed interest investments held with counterparties rated AA or better.

I am pleased to report to you that all of our assets are performing and delivering on both their interest and principal repayment obligations, so we've had no defaults inside our fixed interest and cash portfolio. Pleasingly also in the volatile economic environment at the operational level we've not seen any significant impact on the number of policies being purchased as a result of that economic downturn. The other thing I mentioned that has had an impact on both IAG and the industry during 2009 was natural perils.

Natural perils such as storms and bushfires add to the volatility of our results. The chart that I'm showing you now maps the major insurances losses in Australia over the course of the last 35 years. What this chart shows is that six of those major losses have occurred in the last three years.

During the past year for us, claims from natural perils were high, at AU\$451 million, but that was actually around 10% less than the claims from natural perils that we had in the 2008 financial year. This cost of AU\$451 million dollars exceeded our budgeted allowance primarily due to the cost incurred from the devastating fires across Victoria in February, as well as from a significant number of storms across both Australia and New Zealand.



While the recovery from some of these natural perils during the year is far from over for the people affected, I'm certainly extremely proud of the response that we've made, and the way in which our employees have compassionately approached trying to help our customers in their times of need. The dedication and commitment of our people during these stressful and traumatic circumstances brings alive our long and deep heritage of being there for our customers at the time of greatest need.

The cost from these events is high; however managing their impact is part of our day to day business as an insurance group. We mitigate the effect of natural perils and other disasters on our financial results in four key ways. Firstly, we budget for natural perils and that budget is factored into the premiums that we charge. Secondly, we have extensive and high quality reinsurance covers which means that the cost to the Group from catastrophic events is capped with reinsurers covering the claimed costs above that cap. Thirdly, we help communities prepare and adapt for the threat that is posed by natural perils, and finally, we've got operational procedures in place to respond quickly to help affected customers to get on with their lives as quickly as possible.

The external conditions that we faced during the year have only added impetus to the importance of getting the fundamentals of our business right to ensure that we remain here for the long haul.

While we were heavily focused during 2009 on actions to immediately improve our financial performance, we've also refined our approach to ensure that we can sustain our profitability over the long term. This has meant evolving the way we respond to the needs of our customers, our employees and to the communities and the environment in which we operate. We believe that we need to take a balanced approach to responding across each of these dimensions if we're to ensure the long term success and profitability of our business. And I'm pleased to report that we have improved against most of our business sustainability measure during the 2009 financial year.

Details of how we have performed can be accessed from our website but I'd like to highlight a few key indicators. Employee engagement across the Group was high at 84%. This meets the global high performing companies benchmark and exceeds the benchmark for global financial services companies as set by our service provider. This result is particularly pleasing giving our employees have undergone a period of significant change as we've implemented our revised strategy.

Customer retention across our Australian and New Zealand businesses remained high during the year and the satisfaction score amongst our customers for our largest business, the direct to the public business in Australia, was in line with the previous year at 84%.

As an insurer we believe that we've got a role to play in identifying and mitigating risk in our community, so our proactive involvement is important. In the 2009 financial year our community investment was more focused and driven by our operating brands which are closest to the communities that they serve.

We continue to invest in the Australian community through long term initiatives, including our community grants program, and partnerships such as our involvement with the volunteer rescue association which in 2009 responded to almost 650 storm recovery and motor vehicle incidents.

From an environment perspective, I'm pleased to report that the Group's CO2 emissions continued to fall, reducing by about 12% during the year. This reduction supports our goal to become carbon neutral as an organisation by 2012.

From a customer perspective, one of the keys to continuing to improve these measures is to be able to adapt to the changing expectations of our customers and to deliver superior products and services. Last year we highlighted to you the Unworry campaign under our Australian Direct Insurance brands. During the year we continued to invest in that campaign, and I'm extremely pleased to say that we continue to see encouraging results.

We also introduced in our Direct business flood insurance, and this addressed the longstanding difficulties associated with this cover for home owners. Our intermediated business in Australia, CGU, also during 2009 invested in a new brand campaign and introduced revised customer initiatives.

Another exciting milestone for us was the launch of our new online business, The Buzz, which I mentioned earlier. This provides car insurance customers the option of interacting with us online through the entire life cycle of their policy, from buying a policy through to making a claim, although we prefer not to have too many claims.

These initiatives are examples of the innovation we're pursuing to stay relevant to our customers, providing them with choices not only in what they buy but also in how they choose to buy it.

On the sustainability front we're proud that our work has again been recognised through continued inclusion in the Dow Jones Sustainability, the FTSE4GOOD and the Goldman Sachs JBWere Climate Disclosure Leadership indices. We know that we must continue to rise to the challenge of exploring new ways to maintain our leadership position by delivering superior outcomes for our customers, for our employees and for the community and the environment and, importantly, for you our shareholders.

For us, 2009 was a year of rebuilding, and I believe that we've now laid a very solid platform for the future success of our organisation. The progress that we've made against our strategy has given us clear direction for the 2010 financial year.

I'm pleased to report that the financial results for the Group for the first few months of 2010 financial year demonstrate that our performance continues to improve. Underpinning this improvement are four factors. Firstly, higher premiums, including the earned effect of rate rises which were implemented in 2009. Secondly, the full benefit of the operating efficiencies in Australia, as well as ongoing cost control measures across the Group. Thirdly, improved performance from our CGU and New Zealand businesses and, finally, reduced exposure to the underperforming UK private motor market.

Our performance in the opening months of the year have also been assisted by a narrowing of credit spreads which have occurred since 30 June. This visible improvement in performance gives us confidence that we will deliver on our guidance for the 2010 financial year.

Indeed, if the conditions that we've seen during the first quarter continue, we expect to deliver an insurance margin at the upper end of our 9% to 11% guidance for the 2010 financial year.

Now, I've got to say this is of course subject to the usual caveats that we need to put in place, given the volatile nature of the business that we're in and the uncertainty that that entails. But certainly the first three months of our financial year have been very encouraging for us.

Looking ahead, our direction is clear. We remain focused on the three core priorities I mentioned at the beginning of this presentation -- firstly, to continue to improve our performance in our home markets of Australia and New Zealand; secondly, to pursue selective general insurance growth opportunities by growing our presence in targeted Asian markets and pursuing other niche opportunities which incrementally drive value across our business portfolio; thirdly, continuing to drive operational performance and accountability right across our group.

Our long term financial targets remain unchanged. Over the cycle, we aspire to deliver top quartile total shareholder return and a return on equity of at least one and a half times our weighted average cost of capital.

So ladies and gentlemen, in conclusion 2009 was a year of rebuilding for IAG. We've achieved a significant amount against the priorities that we set and I'm certainly very pleased with the progress that we've made and the actions that we've taken have delivered an improved financial performance for the 2009 year, but also that they've delivered an improved outlook for 2010 and beyond.



However, we know that there is much that remains to be done. I certainly don't underestimate the challenges, nor do any of the people inside IAG, because we still have much more to do if we're to meet our objectives for the coming year and for the longer term.

However, I am confident that we have the right strategy and the right team to ensure that we can deliver these improved results, and I thank you, our shareholders, for your continuing support.

James Strong - Insurance Australia Group - Chairman

Thank you very much, Mike. Now we'll turn to the business before the meeting, and I'll just give an overview in the items of ordinary business. There are six items of business before the Company's annual general meeting this morning, and these are set out in the notice of meeting, which I'm sure everyone has received. Five of these items require ordinary resolutions to be voted upon. No notice of other business has been validly or duly given by shareholders pursuant to the Corporations Act.

I'll go through the meeting procedures. Security -- I remind you again that in the absence of special permission I will not allow any recording or broadcasting device to be used during the meeting. This is a meeting of shareholders.

In accordance with the provision of the Corporations Act, I'll ensure that shareholders here today have a reasonable opportunity to ask questions about and make comments on the management of the Company, and to ask questions of the Auditor's representative at today's meeting. Questions to the Auditor are limited to the matters specified in the Corporations Act.

The only items of business to come before the meeting today will be those specified in the notice of meeting. I will not consent to other business being put to the meeting. This is because if any matter of substance is to be put before an AGM proper notice of such a matter must be given to all shareholders so that they may decide whether to attend the meeting or how they might vote their shares in the light of the proposed business of the meeting.

I ask speakers to confine their questions and comments to matters that are relevant to the business of the meeting and to the particular resolutions that are being discussed during the meeting. I would ask that speakers restrict themselves to no more than two questions or comments at any one appearance at the microphone.

I draw shareholders' attention to the fact that the laws of defamation apply to statements made at an annual general meeting such as today. Please ensure any statements you make are supported by facts and your statement is justified.

I would also say that this is not really the time or place to air complaints about individual matters such as insurance claims or the like. If you do have real issues of this kind, please raise them with our staff at the information desk that has been set up in the foyer and we will get somebody to assist you with the handling of those matters.

There are two microphones stationed in the auditorium, on each side. Anyone wishing to speak should, when advised that the floor is open for questions, move to one of the microphones and take their turn in the queue. I remind you that only shareholders, corporate representatives and proxy holders are entitled to speak on the business before the meeting. That is persons who are issued with a keypad, and data card or red non-voting card when registering for this AGM. Please show your keypad or red non-voting card to the microphone attendant to establish that you are entitled to speak to the meeting.

I remind speakers that I may give priority to a person who wishes to address the meeting for the first time over a person who has already spoken. A speaker wishing to speak more than once may line up for



another turn. I will generally take comments and questions from each microphone in rotation. When you are next in the queue the attendant at the microphone will introduce you.

Before we move to the business of this year's meeting, I confirm that minutes of last year's AGM of shareholders, held on 11 November 2008 have been approved and signed by me as the Chairman of that meeting in accordance with the provisions of the Corporations Act.

Copies of the minutes are available for shareholders' inspection at the information desk in the foyer.

The notice which convenes this meeting has been sent to all shareholders. Shareholders have also had the opportunity to view the notice on our website. Unless there are any objections, I propose to proceed on the basis that the notice is taken as having been read at the meeting. If there are no objections to that formality, the notice of meeting is taken to have been read, and we will now move to the first item of business, which does not require the use of the keypad technology.

First on the item of business is the receipt of the financial statements. The Insurance Australia Group Ltd financial statements for the year ended 30 June 2009, the Directors' Statement and Report and the Auditor's Report on the financial statements are before the meeting.

A copy of those statements and reports was published in the Annual Report, which has been sent to those shareholders requesting a copy. It was also available on the website.

The purpose of this agenda item is to provide an opportunity for shareholders to ask questions and make comments about the Company's performance, prospects, operating capability and management. The Company's Auditor is KPMG and is represented at the meeting today by Mr Brian Greig, who will be able to respond to questions relevant to the conduct of the audit of the Company's financial statements, the preparation and content of the Auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the Auditor in relation to the conduct of the audit.

In accordance with the Corporations Act, shareholders were able to submit written questions to the Auditor. Questions received prior to today's meeting concerned matters which did not relate to either the content of the Audit Report or the conduct of the audit of the financial statements. Responses have been provided to these shareholders. All questions to Mr Greig should in the first instance, be addressed to me as Chairman, and if appropriate I will request Mr Greig to address the meeting.

If anyone wishes to speak in relation to this item of business, if you could make your way to the microphone. I might just add, I've received a letter, yesterday, from a gentleman called Mr Jack Tilburn, who is quite a good friend of mine and we've had some interesting discussions over the years.

It is addressed to Mr James Strong, which is the term he always uses when addressing me. Please note, I am not dead. So you will all be pleased to hear that. But tomorrow, I must go to bombard the Fairfax Media Limited meeting at 10.30 am, so my apology for the AGM of IAG. Best regards, Jack Tilburn, Corporate Terminator.

So I'm sure you'll all miss Jack being here today, but you know he's with us in spirit. I'm sure if he's got any issues he'll let me know as well.

So now can we go to the questions or comments regarding the financial statements reports? Bear in mind please those who want to say something that on remuneration we've got a resolution where you can speak about remuneration issues and Brian will provide a report. On the question of the share rights of the CEO, there'll be a special item on that as well, so if you've got a view about that, that can be handled at that time. So the floor is open for comments or questions.



QUESTION AND ANSWER

Operator

Chairman, can I please introduce John [Hogben] to the microphone.

John Hogben - Shareholder

Good morning Chair. I have a question on climate change and I guess it's directed to Mr Wilkins. Mr Wilkins, you commented in your comments how the Company manages natural perils and referred to budgeting natural perils, a cap for reinsurance and to help communities to prepare for natural perils. But I felt that what you were saying to us ignored possibly upward trending of natural perils. So my questions, two questions. Does the Company expect more extreme weather patterns in the future and how will this feed into risk margins and premiums? And secondly, if sea levels are going to grow by a meter or more, as Minister Garrett suggests, how will the Company cope with this in its business models?

Michael Wilkins - Insurance Australia Group - CEO

Thank you. A couple of comments on natural perils. We certainly do believe that climate change is real and over the course over the last several years we've seen the growing preponderates of environmental issues that have affected our industry, and in fact the charge that I showed, showed that six of the major events that the insurance industries had in Australia over the last 35 years have in fact occurred over the last three years.

We try to factor the effect of that into our premiums as best we can. It's an imprecise science, however just to give you an example of that, I mentioned that the cost to us in the 2009 financial year was AU\$451 million including the cost of the Victorian bushfires. Our allowance included in our premiums for that year was AU\$314 million. That AU\$314 million was an increase from about AU\$240 million that we had assumed we would incur in the 2008 financial year.

In 2010 we have again raised our expectations so we now believe that we will have something like AU\$350 million worth of costs associated with natural perils during this year. So it certainly is something that we see as real and we are making every effort to include that in our costings. However, it is imprecise. The only think I can tell you is if we come in at exactly at AU\$350 million I think it will be a great fluke.

On the sea level piece, we're monitoring that quite closely and looking at our preparedness or otherwise to continue to offer insurance to those people who have built in, in coastal areas. That's a subject of considerable debate just at the moment and has been something that's been in the media over the course of the last couple of weeks in particular. We continue to take an active part in that debate and have made a number of submissions to Minister Garrett and others around what we think the impact of that can be. Again, that will take some time to play through, but certainly the Company is taking a very active part in that debate.

Operator

Chairman I'd like to introduce Mr Joe [Nagy].

Joe Nagy - Shareholder



Good morning Mr Chairman, Board and fellow shareholders. First of all, I concur with the assessment made by the Managing Director that NRMA's financials are in good order, and I thank Mr Glenn Revell for taking the time to answer my detailed questions.

However having said that, two quick questions -- one of them concerns IAG's performance on its investment portfolio. My question is this -- how come IAG has escaped large write downs that others in the investment community have not? I'm thinking right now of NRMA, they've taken some pretty sizeable hits on that, the issue being the transferring from equities into cash is sometimes a painful experience. So I would be most interested in you sharing with us how that's happened.

My second question - and I hope this is relevant and not stepping outside the bounds here - but it concerns the comment on page 2 of your Annual Report about the Board setting the risk appetite. I think that's incorrect - no, not incorrect; I think it's unwise. I think the risk appetite, if you want to call it that, should be determined by the quality, the experience and expertise of your staff and that should determine how risk should be accepted. In any event, one question I have to ask you both is how do you determine your maximum amount of risk that you'll take at any one point in time? Thank you very much.

James Strong - Insurance Australia Group - Chairman

Thank you Joe. Look I'll ask Michael to respond about how we manage investments. I think in relation to that comment, the board setting, the risk appetite, don't take that too literally. Obviously the Board does that on the detailed advice of experts within the Company who are constantly monitoring risk and so on. So it's just that we're saying well we're finally responsible for it but it is on extensive advice, so I hope that clarifies that. So Mike, would you like to --

Michael Wilkins - Insurance Australia Group - CEO

Yes, in terms of the investment portfolio, relatively speaking, our performance was good during the 2009 financial year, but it is relatively speaking. I used to have an old investment director that explained to me that it was apologetic cold comfort that we'd lost less money than the next person. But our performance was good.

We, like all financial institutions, have to mark our assets to market and in most cases the losses that we have incurred have not been realised, so we did trade out of our equities but we probably traded out of those that at least break even if not a small profit. But we do have to mark our equities as well as our fixed interest securities to market. They fluctuate quite significantly so from the perspective of our investment in equities there was a small loss that we took on a mark to market basis during the 2009 year. Equity markets have improved a little subsequent to that time so we have some small profits now sitting there.

In terms of our fixed interest securities we tend to hold those to maturity so the mark to market fluctuation really, whilst it affects our reported financial results, doesn't affect our economic results. I did mention during my presentation that all of our cash and fixed interest securities have been performing from both an interest payment as well as a principal repayment level, and to me that's the best indication of how that portfolio is going.

Operator

Mr Chairman, could I please introduce Mr Brian Gates to the microphone.



Brian Gates - Shareholder

Good morning Mr Chairman, I've got two question. First of all, the deregistration of subsidiaries and disposal and liquidation of entities. Do you have any divestments planned and secondly, with your support for the VRA could you consider extending the sponsorship to other voluntary emergency services as well?

James Strong - Insurance Australia Group - Chairman

I will just make sure I've got your questions right. The first one is do we have any plans for any major divestments in the near future?

Brian Gates - Shareholder

Yeah, that's correct.

James Strong - Insurance Australia Group - Chairman

Yes, well the answer to that is no. I think as you could take from Michael's review that we have disposed of those parts of the portfolio that weren't performing and at the moment we're just concentrating on making the key parts of business run very well and that's certainly our most important priority.

In terms of the second part of your question related to --

Brian Gates - Shareholder

About extending your sponsorship to other voluntary emergency services.

James Strong - Insurance Australia Group - Chairman

Yes, well I might ask Michael to speak about that because we try to operate a system of helping in the community in a way which engages our own staff as well. So Michael you might like to give a few more details about that.

Michael Wilkins - Insurance Australia Group - CEO

Thanks James. Mr Gates, yes, we run a community grants program so we are happy to receive ideas or indeed requests for assistance to worthwhile community projects. Unfortunately, we usually get more requests than we can accommodate and what we try to do is rather than just spreading AU\$1 or AU\$2 right across the place, we actually try to make sure that when we do assist through those community grants that we can make a genuine difference and I did refer to a couple of the initiatives that we've taken.

However, if you want to see some of our people who are outside or indeed see me after the meeting, I am happy to at least take details of something that may be of interest to you and to ensure that that is considered.

James Strong - Insurance Australia Group - Chairman

Yes, number one?

Operator

Chairman, I would like to introduce Ian [Skandrid].

Ian Skandrid - Shareholder

Morning Chairman, ladies and gentlemen. James, just a procedural question if I may first, and that is you've made the usual statement about no recording devices. I don't see the value of that so much anymore. We're broadcasting on the web, we have an institutional investors room up the back there. I really think that it's time to review that and I really do think we should download the file of yours and Michael's features not only onto the Company website but onto Youtube so people can see and hear them in their entirety; it's a simple thing to do, my 10-year-old boy can do that.

James Strong - Insurance Australia Group - Chairman

Good on your 10-year-old boy.

Ian Skandrid - Shareholder

But I make the point with some reason, because you are aiming to connect through the online business, the direct business, the web business, with the younger market. He'll be buying insurance in seven or eight years time.

James Strong - Insurance Australia Group - Chairman

It's an interesting comment.

Ian Skandrid - Shareholder

And there's no reason why we can't put the sides up so that those people who aren't here today, and there would be maybe 400 people in the room or something like that, you could tell the meeting how many are there. I think these are valuable things that you should be doing and I'd urge Brian as he comes on board to continue that trend - slides, speeches, video - and I notice the camera for example is focused on the speakers but you haven't given a pan shot of the meeting to those people at home, the retail investors, who are unable to get here because they're outside the areas, or unable because of other reasons.

And I would suggest that it might be worthwhile for the camera to take a pan shot or two, to show the size of the audience here today, because we are CBD-centric in this. I'll leave that one with you. The same thing would apply to the minutes too of the last AGM. I see no reason they can't be up within say 65 days of today, up on the website, once the Board has reviewed them.

James Strong - Insurance Australia Group - Chairman

After the meeting you mean?



Ian Skandrid - Shareholder

Yes, indeed, yes. Today's minutes, you could have them to the next board meeting or two, and you could have them up within 65 days. I mean like our local council gets them up in three days, in an era of connecting with our retail shareholders.

James Strong - Insurance Australia Group - Chairman

Yes, okay. We'll take both of those on board and then minutes, as you know, don't attempt to record every - what everyone says, they're schematic minutes, so your comment is fairly relevant. And the other comments we'll take on board as well. It's never been my personal aim to be on You Tube but we'll have a look at your suggestions.

Ian Skandrid - Shareholder

Well with danger you're getting back involved in Kathmandu, and that market is You Tube, let me tell you.

James Strong - Insurance Australia Group - Chairman

That's true. And you'll notice that we've got the buzz, so Jackie Johnson's here, one of our most senior managers at the front here, so you can have a chat with her later. But I can assure you that the swiftness and high level entry that we've made into that market has been something we're quite proud of and we think Jackie and her team have done a great job there.

Ian Skandrid - Shareholder

Mr Chairman, there's actually no reason why the whole recording of this meeting, including separate files for you and for Michael, can't be each You Tube as well as downloadable. That I think will also assist with transparency if people want to review what's said here. Yes, I am trying to nail you.

James Strong - Insurance Australia Group - Chairman

I've been told Ian that there are shots or pans of the audience being shown on the webcast, so if everybody can look their most intelligent and bright and alert, you're on camera.

Ian Skandrid - Shareholder

Mr Chairman, I just wanted to ask a question, it's probably relevant to what I've just said, but through you maybe Michael could just define our current split in investor base. We call our smaller investors retail investors, but I guess the definition, the line is simply you're not a corporate, if you take my point, ladies and gentlemen. And I'd like to probably encourage Michael to drill into having drawn that line, you would establish some probably bans within the retail investor class, if I can put it to you that way, okay?

I'm a small, small investor. Another gentleman not far from here has got 10,000 shares etc, you've taken my point that there are different levels. I'd just like to get that. And I'd then like, through you, Michael, for you to maybe haul that back and just sort of talk, okay, well in terms of our overall issued capital could we



just see that relationship there in terms of - I've talked about issued shares; I'd like to then reflect that in a wider sense of how we talk.

For example, I mention the institutional briefing room which is watching these proceedings I think off the foyer up there, you've got - mostly this room is full of, am I correct, you've got institutional representatives?

James Strong - Insurance Australia Group - Chairman

Some, yes.

Ian Skandrid - Shareholder

I don't know why they're not in here to get maybe a sense of the meeting, but again, it's just sort of that reaching out and touching. Thank you.

Michael Wilkins - Insurance Australia Group - CEO

Thanks Mr Skandrid. To make one point firstly about the room up the back, it's actually a room for the media. There are a couple of our institutional investors, but they are here with us in the room as well; a number, I believe, watching on the webcast on all of that.

In terms of the split of our shareholding at the moment, approximately 57% of our shareholders, and that's by number of shares held, institutional investors, corporators, the remaining 43% are retail. We currently have just under 876,000 shareholders at IAG, 14% or almost 300,000 of those shares hold between one and 1000 shares. The other side of that is we have 177 institutional shareholders that hold between - sorry, shareholders, I won't say institutional shareholders, that hold between 100,000 shares and 10 billion shares. So it's a dichotomy, the retail shareholders by number represent the vast majority, but by holding 57% is held by institutional investors.

James Strong - Insurance Australia Group - Chairman

And that's tending to decline slowly the proposition of retail shareholders. It looks as though it's gone down about 3% over the current year, just to give you an idea on that figure, okay. Number two?

Operator

Mr Chairman, could I please introduce Mr [Zahir Batash] to the microphone please.

Zahir Batash - Shareholder

Mr Chairman and members of the Board, good morning. I am Dr Zahir Batash, one of the proud Afghans who became a citizen of Australia 27 years back, and I am an acupuncture (inaudible) specialist and so proud that we joined the NRMA Insurance to you. They had every year, the general meetings a very, very tough time with me. Maybe some of you have seen me on what used to be -- broadcasting on television. That was me. From Nicholas Medlam and Karen Bull, I said you can turn the bull but it's very hard to turn a Jaguar Afghan which lives on the peak mountains with snow, which I am here now.



So last year I was not able to attend the conference, general meeting here and then I come home, I went to Beijing for a Work Federation Acupuncturist and I got between 132 countries of all the world specialists first prize because I fixed the leakage of my own heart with acupuncture and proudly not on the monkey, or rabbit on mouse, on myself. This way I got the first prize.

Now I have one question.

James Strong - Insurance Australia Group - Chairman

Yes, could you go to the question, please?

Zahir Batash - Shareholder

To please keep the mouth of the idiots which they already speaking after somebody today wait for one year to talk with you. Gave time, I am so proud that you gave the way for me when he was speaking, not ten minutes. What the hell is going on? My name here, Mother Theresa was calling me Dr Zahir the Great when I was 32 years old working in Calcutta with her, and I come here now I am Dr Colombo. You move yourself, I know what the hell is going on. Now the question, the question.

James Strong - Insurance Australia Group - Chairman

Yes, get to the question, if you could, thanks.

Zahir Batash - Shareholder

Yes, James Strong, question is are you supporting, are you insuring selling our blood, which is natural gas when the gas is finished, you have to buy it ten times more? This is Dr Colombo, thank you very much.

James Strong - Insurance Australia Group - Chairman

Thank you. Well thanks for your comments, Dr Batash. Is there a question from number one?

Operator

Chairman, I would like to introduce Michael Perry.

Michael Perry - Australian Shareholders Association - Representative

Good morning Mr Chairman. I am carrying proxies for members of the Australian Shareholders Association and others amounting to some three million shares in total. I would like to return to the subject touched on by an earlier speaker and yourself in fact. I think you confirmed some figures that I have looked at myself that the proportion of shares held by retail shareholders has in fact declined over the past year.

Now I don't think it's coincidental that during the last year you had an institutional placement that raised some AU\$450 million which of course retail shareholders were not able to participate in and you then, for the retail shareholders made a share purchase plan which raised another AU\$84 million odd.



Now since at that stage your retail shareholders accounted for something over 40% of the total shareholding, I think it's easy to see that the way in which you have raised new capital is quite disproportionately loaded against the ability of retail shareholders to maintain their relative position.

Now, we of course understand that the last year has been one of turmoil and some extraordinary events. So maybe they were good reasons. Maybe you had to raise that money in a hurry and of course it's quicker to raise money via institutional placement than via a rights issue.

However, may I firstly point out that the fairest way of raising new capital, it needs to provide an equal to chance to everybody and I think the best way of doing that is by a renounceable rights issue, and then all of your shareholders have the right to maintain the relative proportion of your company. And if they - I see I'm not alone - don't wish to, then they get some value for selling those rights.

So could I ask you, Chairman, what is your intention regarding any future capital raisings. I appreciate you're very heavily capitalised now but I'd like to get some confidence that retail shareholders won't be gradually and steadily diluted through sheer convenience.

James Strong - Insurance Australia Group - Chairman

Okay. Well, first of all, thanks for the question Mr Perry, and thanks for the - the ASA notified us that they would be raising this and it's obviously a reasonable subject to raise.

I'd just like to make a statement to clarify the situation as to what did occur in February and the reasoning behind it. You'll recall that there was a placement but there was also the SPP, which you referred to. That was undertaken at a time when the market conditions were quite volatile, as you mentioned yourself. The risks and the uncertainties during this period meant that renounceable rights issues were not considered a viable alternative for most issuers in the Australian economy in 2009.

We sought to minimise any diluted impact for retail shareholders from the placement by undertaking an SPP for retail shareholders on terms consistent with the placement to the institutions. Importantly, there was no scale back attaching to the SPP so retail shareholders were fully allocated based on their demand.

IAG has always and will continue to attempt to serve the best interests of all its shareholders, including its more than 880,000 retail shareholders. At the time of the capital raising, early in 2009, it was felt that the most effective way to do this was through an institutional placement followed by an SPP. Under ASIC rules at the time of the raising we could only offer a maximum of AU\$5000 worth of shares per shareholder under the SPP. The combined capital raising, the two of the institutional and the SPP, equated to the equivalent of approximately one new share for every 10.5 previously held.

Under the AU\$5000 worth of shares limited over 99% of our retail shareholders would have been able to subscribe to shares equivalent to at least one for every 10.5 already held and were therefore at least as well off as would have been under a renounceable rights issue. I'd also point out that the AU\$100 million allocation made under the SPP was not fully allocated.

So those are comments just on specifically what happened in early-2009 but I'd just like to say on behalf of the Board that we do understand the point that you're making and I think it's something for boards to consider generally, going forwards at any time when you are considering raising new capital.

I'd like to clarify that it is certainly not and never has been the aim of this board to do anything to reduce the number of retail shareholders. It's been one of the strengths of this company. So it's a valid point to bring to our attention. I hope that explanation about the February situation puts it at rest, the fact that



nobody was denied shares within the limits that were available, but it is something that will be always taken into consideration at any future raising, which we don't have planned at the moment.

Michael Perry - Australian Shareholders Association - Representative

Thank you Chairman. I might just note, of course, that since then the rules have been slightly relaxed and so you should be able to give even I think greater priority to retail shareholders interests in the future.

James Strong - Insurance Australia Group - Chairman

Yes.

Michael Perry - Australian Shareholders Association - Representative

Thank you.

James Strong - Insurance Australia Group - Chairman

But avoiding differential treatment is something that's very much on the agenda, so thanks for making the point. Number two again?

Operator

Chairman, may I introduce Mr Kevin [Daley] to the microphone.

Kevin Daley - Shareholder

In 2009 you made a quite substantial loss at the underwriting level. It was about AU\$250 million, I think, and in order for the Company to be making reasonable returns you need to be getting good performance at the underwriting level and at the investment level. So I'm just wondering if you expect this year to be returning to a reasonable profit at the underwriting level?

James Strong - Insurance Australia Group - Chairman

Yes, we certainly do, and I'll ask Michael to comment on that in a bit. He did cover this to some extent in his general - but I'll get him to make some more specific remarks.

Michael Wilkins - Insurance Australia Group - CEO

Mr Daley, the apparent loss at an underwriting level is as much as anything else influenced by the way in which insurers are required to account for their claims expenses. Rather than just booking the estimate of the claim we actually have to look at the duration and discount it using the risk-free interest rate that is prevailing at the time.

As you're aware, last year interest rates went from 7.25% to 3% and obviously the discount rate declined meaning that our claims costs went up. It's why at IAG we talk more around the insurance margin rather than the underwriting line because I think just considering the underwriting position can be misleading,



particularly in a situation where interest rates move because we match the duration of our assets with the duration of our liability. We did see that our insurance margin was over 7% during the year.

If I adjust for everything to do with interest rate movements, we underwrote at a very marginal profit during the 2009 financial year and that was impacted by those natural perils that I mentioned, including the costs of the Victorian bushfires. Other things being equal, we will always try to underwrite at a profit. However sometimes the accounting standards get in the way of the economics of the situation, and 2009 was a year where that occurred.

James Strong - Insurance Australia Group - Chairman

But certainly also I hoped that you picked up, Mr Daley, from Michael's comments that one of the things that we've really gone back to focus on is the quality of the risk that we're underwriting in every part of our business as well. So I hope between the two explanations that's satisfactory.

Operator

Chairman, I would like to introduce Cecelia Cook.

Cecelia Cook - Shareholder

I was very favourably impressed by your - the way you've done things this year. There's been a vast improvement, that's quite obvious and I certainly will be voting for Yasmin Allen and Phillip Colebatch because I'm pleased with everybody and the more you have a woman's input, I think the better the quality. So I vote for that.

As I say, I'm a volunteer, but a very active volunteer and what I feel that would be very good is to encourage the growing of plants and forests. Indeed my daughter has a farm in Robertson, high up on the mountain and they're unable to say the exact amount of space because of the density of the forests that are surrounding it. I, myself, with my little garden, I have seven or eight trees, flowers in the front and vegetables in the back and that's in Kings Cross. So we should encourage the growing of trees that will negate the sea - you know, the carbon emissions.

James Strong - Insurance Australia Group - Chairman

Yes.

Cecelia Cook - Shareholder

So if anybody wants to encourage that, I think it's really good.

James Strong - Insurance Australia Group - Chairman

Thank you and thank you - every year you've had a good tip for us about something to do with the environment, so thank you for your contributions.

Cecelia Cook - Shareholder

Oh, I live for the environment.

James Strong - Insurance Australia Group - Chairman

Yes, I gather that.

Cecelia Cook - Shareholder

You know, I've got Aboriginal friends who are chomping at the bit to allow their indigenous lands to be used for the preservation of the environment. They'll do it with a passion. So I'm encouraging (inaudible) and these people to use their services.

James Strong - Insurance Australia Group - Chairman

Thank you very much.

Cecelia Cook - Shareholder

Because great creation comes with passion, and if it's what's in your heart, you will do the best.

James Strong - Insurance Australia Group - Chairman

Thank you very much.

Operator

Mr Chairman, can I please introduce Mr Gregory Simoni.

James Strong - Insurance Australia Group - Chairman

You can never complain of lack of variety at our meetings here.

Gregory Simoni - Shareholder

G'day, that's S-I-M-O-N-I for the minuted record. I'm an ordinary shareholder and through you, Mr Chairman, I just want to have one comment and a question. The comment hopefully you can clarify. It's basically a guess - basically if you don't comment I'm just going to take it as a statement of fact. Since the last AGM and if I think about it the AGM before that, the AGM before that, the AGM before that, I have noted that there's no figures in either the AGM reports or anything on the website concerning proxies that have not been cast. So by that I mean basically either been not delivered to the proxy holder or that's possibly due because the proxy holder's either changed his or her address, has either basically got the proxy form and just threw it out or has either died. So it would be great if you can get some sort of minuted end notes on one of the reports to say: this is our mailing list, this is what we've mailed out, this is what's come back, hence the results of the voting at the end of the meeting.

But I'm assuming that you don't sort of put - you have the records but you don't put them on because it's probably going to be negligible to the end result, so now to my question. Speaking of institutional



investors, since I haven't really seen any - some were at the back - and haven't seen any submissions on the website, I might as well sort of pose myself as an institutional investor, sort of pretend that I am one.

James Strong - Insurance Australia Group - Chairman

Feel free.

Gregory Simoni - Shareholder

But I'm assuming that they're not here and they don't want to make any submissions and you sort of don't go after them to make submissions to ask you the questions because I think it's probably if you don't question my back I'm not going to question yours type of approach here in Australia and probably overseas as well. So on that, I'll give it my best shot. So going off the investor briefing progressing to plan, 30 October 2009, some of which was pretty much copied and cut and pasted here. Mr Wilkins makes it a priority to optimise returns in the home territories of Australia and New Zealand.

He speaks to that as a priority, ticks it as well on the presentation. Not once in that 105 page presentation is it mentioned how IAG will counter the 4500 Australian posts and Coles outlets over that amount selling insurance over the counter. Or how the approach will be to sort of - will it be a approach to specialise Australia direct as you have done in IAG UK, to re-focus sort of a specialised underwriting where in the UK example you weren't successfully able to compete with Tesco's and Sainsbury's, whether basically override it over the counter. So given that would you possibly consider or entertain a merger or takeover if this was to occur in Australia? Thank you.

James Strong - Insurance Australia Group - Chairman

Good. You've certainly covered some territory there and good on you. The first part, yes, what you say is likely to be the situation about the proxies is true, that it would be very, very difficult for us to do that and require a lot of resources and it really is a small amount. But I'll ask Glenn, our company secretary who looks after all that area, he might make a comment that might be of interest to you.

Glenn Revell - Insurance Australia Group - Company Secretary

Sir, last year roughly 40% by number of votes were cast either directly or by proxy or both shareholders in this room. That represented about 97 out of the then 900 odd thousand shareholders. The proxy results for today's meeting will be published after this meeting to the Australian Securities Exchange. I'm quite happy to provide that sort of information on our website if you think that would be valuable in terms of on iag.com.au.

James Strong - Insurance Australia Group - Chairman

So I don't know whether you sort of had a sort of sneaking suspicion that we put a lot of them in the rubbish bin or whatever, but that isn't the case I can assure you. But that information would be helpful thanks Glenn, and thanks for that comment. In relation to the institutions you said you don't know if they're here, just look around and see if there's anyone who looks prosperous so that might be a way of working that out. But generally it's a sort of a fact today that institutions don't generally attend shareholders' meetings, which is their own judgement whether they do or not. They obviously quiz us a lot about what we're doing and how we're doing it. Of course we have to make sure that in dealing with them that we don't reveal any information that isn't available to the general public or to you as a shareholder. So that's



always something we have to watch very carefully. The question about the priorities and so on, I might ask Michael if you'd respond to that.

Michael Wilkins - Insurance Australia Group - CEO

Mr Simoni, new entrants is essentially the question that you were asking around all of that. We don't take any of our competitors lightly, be they the current competitors that are in the market or those that may enter. However, I think that we run the risk that if we concentrate purely on those new players that are coming in the market we take our eye off the main game, which is actually to provide superior products and services for our customers. If I can give you an example of a couple of those competitors and you mentioned at least one of them in that scenario, Australia Post has indicated that it is targeting a half of 1% of the motor vehicle market in Australia, a half of 1%. Our market share is somewhere between 25% and 30% of that market and we anticipate that we will at least hold that, if not continue to grow that.

Another example of one of the smaller players, the budget group that has been in this country for somewhere between 10 and 12 years and has yet to attain AU\$150 million in terms of premiums for its insurance offerings versus our AU\$3.4 billion worth of premiums that we write through our direct to the public business. What we'll continue to do is to focus on the priorities respecting all of our competitors, but making sure that we do the best job that we can in making sure our products and services are relevant for our customer base. I think there is something to be said for the significance of the brand and the heritage that we also have, but we're not sitting on our hands either. New initiatives such as The Buzz are there to help our customers deal with us in as many ways as they wish to do. So a long winded answer of saying we take our competitors very, very seriously but we're not altering our strategy purely because of those new entrants. Rather we take them in our stride and believe that our current strategy covers that.

Operator

Chairman, I would like to introduce Peter Starr.

Peter Starr - Shareholder

Yes, good morning Chairman and fellow shareholders. I would just like to say to you Mr Strong good luck when you leave and thanks for what you've done. Another comment through you to Mr Glenn Revell. I'd like to thank him on behalf of a matter and the excellent work he did in trying to resolve that matter.

Now, a couple of questions. In relation to the shareholder, the dividend reinvestment plan, the DRP, are there any plans to change that at present?

James Strong - Insurance Australia Group - Chairman

No, in fact we haven't sort of discussed it recently on the basis that there hasn't been any case put before us to change it. Is there some aspect of it you would like to address?

Peter Starr - Shareholder

Yeah, I'm one of the people who take that plan, the DRP. I don't take any dividends, I just buy shares, not only in this company but a number of other companies. So I just wanted to know if there are any plans to change that.



James Strong - Insurance Australia Group - Chairman

No, we think it's operating quite well and I'm not aware of any circumstances that say we should discontinue that because there are a number of small investors who like to use that methodology.

Peter Starr - Shareholder

Thank you. The other point I wish to raise with you is that does HFSS hold shares in IAG, and if so, it may be a concern to the shareholders here that it stands for Hassle Free Shares Pty Limited. HFSS - Hassle Free Shares Pty Limited, Mr Chairman.

James Strong - Insurance Australia Group - Chairman

I'll just ask Glenn if he can comment.

Glenn Revell - Insurance Australia Group - Company Secretary

Mr Starr, the way Hassle Free Share Sales operates, it actually turns the shares it acquires from the shareholders over very quickly. As of today it may hold a very small parcel of shares but it's only as a consequence of its intention to sell those shares fairly quickly. So yes, Hassle Free would only hold a very small parcel of shares at any point in time.

Peter Starr - Shareholder

My concern with that Mr Revell is that they tend to seek out and buy the shares for substantially, not the value they're worth and they keep changing their name as you're aware Mr Strong, we've talked about this last year and the year before I raised that, and the year before. I don't know what else can be done but something should be noted, that's all.

James Strong - Insurance Australia Group - Chairman

We actually are very much aware these are predatory people, let's not mix words about it and I think on a couple of other occasions Glenn has addressed this. There's a whole range of comments I could make to you but I think overall we certainly go to considerable lengths to ensure that shareholders are warned about these people. As you say they do keep changing their identity.

Peter Starr - Shareholder

Absolutely, absolutely.

James Strong - Insurance Australia Group - Chairman

They're unsolicited offers and we have on a number of occasions lodged shareholder warning statements with the ASX in the hope that that will help people pick it up. Of course some of the most vulnerable shareholders are those who acquired the shares on demutualisation and sort of haven't followed the value of the shares since that time. And we've written to many of those people, those small



holders on several occasions and advised them that they can sell their shares through a broker at market price rather than be ripped off by these people.

We ensure our website prominently displays warnings on our home page. We're working with the government and the ASC to ensure that shareholder interests are protected and this year we made a submission to a treasury options paper, Access to Share Registers where as you know, we are obliged to provide the details to the shareholder register. And that submission, if you're interested in it, is on our website. And we make a series of recommendations for protecting interest of shareholders. So it's still on our agenda, it is an insidious thing I agree with you, that people are preying on people who aren't well informed and we'll continue to try to restrict their activities.

Peter Starr - Shareholder

Thanks. The other question I had relates to the UK business, Mr Chairman and I raised this last year and I'll raise it again. Given the fact that so much money was lost in the UK and there's been some recovery, would it not have been benefit to maybe have sold that business altogether and got out of the UK market?

James Strong - Insurance Australia Group - Chairman

That's a very good question and I think we did talk about it last year but I'll make a few comments and then ask if Michael wants to add to it. We certainly sat and did a lot of investigating of what would be the best way to handle the situation in the UK once it emerged that the premise on which the general insurance operations were bought were that rates were hardening and were going to go up and the business was turning, and that was advice from external experts from here to Timbuktu. And of course they did go up a bit but nowhere near enough.

And so we then had to say well we've got to make a tough decision here whether we get out entirely, sell part of whatever. And we did actually canvass all of those options in terms of what the market's appetite was, and at the time, in terms of the reaction and the offers made to us, it did not make sense to sell Equity Red Star, the specialised part, which as you probably know caters to niches in the market. We gave that a lot of thought. We did not get an offer for the whole lot which was anywhere near what we thought its value was.

In the light of the year since and Michael made a comment in this in his speech, it has performed quite well and its outlook is still quite healthy, so we feel that we did make the right decision in hanging on to it and it's operating a viable business. So that certainly in retrospect would have been far better than dumping it at well below its potential value. But it's something we'll keep under constant scrutiny.

Michael Wilkins - Insurance Australia Group - CEO

Thanks Chairman. Mr Starr, I echo the comments of the Chairman around all of that. Equity Red Star is a specialist business, it is the largest motor underwriting syndicate at Lloyds and it has, going back to Mr Daley's question, it has a 38 year unbroken record of producing underwriting profits. We expect that this will be the 39th year that it will do that.

It produced an insurance margin for us last year of about 15%. There were one or two factors in that that overstated that margin a little bit, but we believe it will continue to deliver an insurance margin in the range of 10% to 12% for the foreseeable future and that delivers a very acceptable return on the capital that we now have tied up in the UK. So I echo the Chairman's comments that I think had we decided to get out of that business, it would have been at the wrong time and certainly for the wrong price and look forward to continuing to see the performance of Equity Red Star reflected in the improved results that we will now enjoy as a group.



Operator

Chairman I would like to reintroduce Joe Knaggy.

Joe Knaggy - Shareholder

Mr Chairman, we've all heard many stories and read in the paper many events concerning companies like MFS Central, ABC Learning and so forth and the action that ASIC is taking against directors. My question concerns IAG, whether it has any product that would ensure Directors' performance or whatever and if so, are we at risk in terms of the amount that we've written and its capital?

James Strong - Insurance Australia Group - Chairman

Okay. I think again Michael's the right man to answer that one.

Michael Wilkins - Insurance Australia Group - CEO

Mr Knaggy, we do write Director's officers insurance and professional indemnity insurance, both of which are the classes of insurance that you're referring to. Whilst they are not large in terms of our overall portfolio, they nevertheless make an acceptable contribution. I'm sure that we will have some claims sitting against that, however we practice what we preach in terms of protection, so our individual exposures are capped via reinsurance and other arrangements including the capping that may be put on the overall exposure that any one company wants to have and we do look at that in terms of our overall exposures as a Group.

Difficult for me to comment on individual customers and I don't intend to do that. What I can say to you though is, yes we probably have some exposures to that class of business, but the losses or the loss ratios that we're seeing is in line with our expectations for that class of business and we do cap our overall exposures. So anything we do have would not be material to the financial position of the organisation.

Joe Knaggy - Shareholder

Just one more follow up one on that one, how do you account for that because that would have a long tail, wouldn't it? The points that Mr Strong's made in prior meetings, that you have a court case, they may be found innocent or whatever, at what stage do you tend to think, well this is going to have an impact on us?

Michael Wilkins - Insurance Australia Group - CEO

We will look at that at the time that the claim is lodged with us and then we will make an assessment around what we believe our exposure is going to be. We revisit that on a regular basis to upgrade it or downgrade it, depending on new circumstances that have come to light. So to the maximum extent we can, we attempt to recognise it as early as we can, but yes, these things do go on for a number of years.

Joe Knaggy - Shareholder

Okay, thanks.

James Strong - Insurance Australia Group - Chairman

We've had a fairly good run. I think there's one or two more or have we finished?

Operator

Yes Chairman, I'd like to introduce Mr Hope-Allen.

John Hope-Allen - Shareholder

Mr Chairman, I do understand that insurance is a cyclical business and I do commend Michael on reining in AU\$130 million of fixed costs, that we must have been losing a fair bit of that for a number of years. I am a long term shareholder and in fact I got my shares through the initial listing in 2001. That year I got a dividend of AU\$0.10 a share. This year, 2009, I get a dividend of AU\$0.10 a share. Now on a key performance indicator, I would suggest sir that is very unsatisfactory.

James Strong - Insurance Australia Group - Chairman

Mr Allen, I think we made it very clear that we regard it as - last year's results - as quite unsatisfactory at this meeting, very openly. You're also aware that we have changed the dividend policy, whereas now we've got a different formula so that we don't normalise the results, which can result in you actually paying out more in dividend than profits for the year under the previous system. But certainly your general point is correct, it was an unsatisfactory dividend last time. I hope, as you can see, there's been a lot of progress made in the performance of the Company and a lot of the factors that impacted us were general factors impacting the insurance industry, including the GST. But those parts of our performance that weren't satisfactory by our own import, I hope you've got the message that a lot's been done about it and we're hoping that the dividend policy will return to a healthier one.

John Hope-Allen - Shareholder

Sir, I have listened very carefully, and I'd just like to make it clear that my name is John Hope-Allen, thank you.

James Strong - Insurance Australia Group - Chairman

Okay, thanks. I noted the middle part of it, thanks, Hope-Allen.

Operator

Mr Chairman, I have Mr David Saville.

David Saville - Shareholder

Good morning Mr Chairman. On last night's closing price of shares on the ASX IAG was delivering a grossed up yield including franking credits of 3.2%. This compares with IAG's peers, QBE 6.1% and AMP



6.4%. Is this a result of IAG's shares being overpriced because of a potential takeover? Would you care to comment please?

James Strong - Insurance Australia Group - Chairman

It's an interesting question Mr Saville. Just what components are in a share price at any given time is very hard to judge, except if there's an absolute run on shares and a takeover offer or something like that, you can tell that. Our shares actually have outperformed the market in recent times, but I'm not getting away from the point about the yield that you're mentioning, because there are several elements to that, obviously the price of the shares but also the dividend that is being paid. I just mention that we accepted and took full responsibility for an unsatisfactory dividend last year; we hope we moving back into a better direction with the dividend this year.

But our share price - I meant there has been a lot of comment whether there is a speculation on takeover but it has remained strongly - over the last 15 months it has actually outperformed the market. I'm sorry, we have a chart which shows the ASX, you know, the All Ordinaries and our price and QBE and Suncorp, but I don't think we have it here where we could put it up. So it has outperformed. So you're right, it's the combination of the two, the share price has been reasonably strong and the dividend last year was lower than it should have been.

Peter Starr - Shareholder

Just on the share price there, Mr Chairman, just a quick one. Two and a half years ago we were at AU\$6.60 a share, now we've come back, we got up to 404 as two weeks ago, we've come back to about 371 I think it was last night, or 372. Do you or the Board have an inkling where we're likely to maybe get back to that price of AU\$6.60 and beyond?

James Strong - Insurance Australia Group - Chairman

We'd all be rich if we could work that our, Mr Starr. I mean everybody knows that the market is so difficult to interpret at the moment and everybody has their own opinion about that. personally I think that one of the problems is that there's growing confidence that underneath there is still a level of uncertainty, and every time there's some adverse bit of news there's an overreaction to it. I think we all know that even though there are so many people who have so many models and mathematical formulae about assessing shares that the market is still driven by sentiment more than it is by arithmetic.

But certainly, if you look at IAG's performance since it was listed, it did outperform the market in its early years in TSR and still despite the bad period that we had in the industry generally and then our exacerbation of that by the UK exercise, our TSR is still quite reasonable, but we certainly hope to improve that considerably in the years ahead.

Again I know it's been said before, but I hope that people can see that everything that we talked about last year was taken on the nose, and there's been a tremendous effort by Michael and his team to get back to fundamentals. Michael Wilkins himself has got a great reputation for under promising and over delivering, and sticking to the essentials. And that's the way in which we'd like people to see the Company now, really sticking to the basics of its business and getting on with doing the detailed things like risk assessment, underwriting, at the very best levels. So I think that's the right direction for the Company, and I hope people can see that that is occurring.

This will be the last question, I think, because it's nearly midday and we've got a few other motions to go through and I think we've had a fair discussion. Thank you.



Operator

Mr Chairman, I would like to introduce Ian [Halan].

Ian Halan - Shareholder

Good afternoon Mr Chairman. Good afternoon fellow shareholders, whether you have 1000 shares or 1,000,000 shares. This is a general question. It covers all the financials including the directors. This item I'll give you a reference from the Financial Review. It's very important. They're talking about directors' duties turning national. At the moment there's something like 660 pieces of legislation covering the directors' liabilities and they're discussed briefly by Mr John Colvin, chief executive of the Australian Institute of Company Directors. What the general question is, it's very interesting that various states started off a little bit differently, didn't amend or didn't copy from the common law in England or whatever or they did but they didn't do a very good job of it. What I'd like to see in this wonderful IAG company and all Australian companies is a chairman especially, if he doesn't get his fingers burnt, is to move to get all these state laws more or less in common with one another to make life easier for directors without giving them triple bypasses and that and also getting them the mums and dads and pops and nanas more interested in the Australian companies. Thank you Mr Chairman, shareholders.

James Strong - Insurance Australia Group - Chairman

Thanks. Yes it is quite a frustrating subject and it's one of the products of being under a Federal structure. You mentioned John Colvin. John has just recently taken over as chief executive of the Institute of Company Directors. I think he's bringing a lot of fresh air to that body and being very much on the front foot in dealing with government about complexity and trying to reduce that, and to also make company directors as a group more responsive to what's happening in the community. So it's a good point and certainly I'm involved in the Institute of Company Directors and I know other directors are here too, so what you say is correct. It's something that we should push, and I think there's probably a better opportunity for reform in that area now than there has been for a long time but it won't be easy.

So thank you very much everyone for those comments. Can we go on now to the actual polls and resolutions that we have to conduct. So I need to make a comment about the conduct of polls. As I indicated earlier for those shareholders who are unable to remain for the whole meeting or for the voting on the resolutions, voting may be completed on resolutions as you leave the meeting by returning your keypad and data card and registering your voting intentions on a voting card, available at a desk just outside the auditorium. Polls and all resolutions will close at the end of the meeting. There have been a large number of votes cast directly and by proxy and those shareholders here today are a small part of the 880,000 members in the Company's register, but an important part I emphasise.

In addition, each share in the Company carries the right to one vote and the poll reflects those voting entitlements very fully. Accordingly I will not ask for a show of hands but direct that we move straight to poll for each resolution, because I believe that is the fairest way to proceed. The returning officer, Mr Will [Mongovius] has given me a report as to the results of the direct and proxy voting instructions received for each item of business, and I've accepted his recommendations as to the admission and rejection of proxies and voting instructions and made rulings accordingly.

The preliminary results of the vote of the direct voting proxies and votes from attendees at today's meeting for each resolution will be displayed on the screen at the close of the poll on each of the resolutions so you know what they are. Once the polls have been closed and the votes compiled a report on the final results will be announced to the Australian Stock Exchange as Glenn mentioned earlier as soon as it is available, and it will be placed on our website www.iag.com.au and at our registered office.



I'll now ask a representative from the Company supplying the voting technology to run through a five minute instruction on how to use the keypad.

Unidentified Speaker

Good morning ladies and gentleman. I will now run you through the instructions for voting using your keypads at today's meeting. When you arrived at registration you will have been issued with a white plastic card. If you have not already done so please insert this into the slot at the top of the keypad with the barcode at the bottom of the card facing towards you.

When inserted correctly, you will see a welcome message appear briefly on screen. When a poll is opened the voting device will become active. At this point press 1 to vote for the resolution, 2 to vote again or 3 if you wish to abstain.

You will see a confirmation of your selection on the keypad screen. You do not need to press any other button to submit your vote. If you wish to change your vote, press C to cancel then select your new option. If at any point your card becomes dislodged a warning will appear onscreen when a poll is open. Simply push the card back into place. You will then be able to cast your vote.

If you've been appointed as a proxy press 1, 2 or 3 to cast the vote. This will cast any open votes that you have available. Any directed votes will automatically be cast as instructed. If you hold wholly directed votes on a resolution these will be submitted automatically, as instructed by the holder, when you press 1, 2 or 3.

Those shareholders in proxies who split their votes at registration, you need to press the blue button at the top of the keypad when the poll begins to submit these votes. If you wish to split your vote during a poll please return to registration where your votes will be entered into a laptop.

To quickly recap, for the vast majority of shareholders when the poll begins simply press 1 to vote for, 2 to vote against or three to abstain. If you wish to leave the meeting before it concludes but still cast your votes, simply fill out a voting card and place it in one of the ballot boxes by the exit. When you leave the meeting, please either leave your keypad and smart card on your seat or hand them to an attendant at the door.

If you have any issues with the voting devices please raise your hand and an attendant will be able to assist you. Thank you for your attention. I will now pass you back to your chairman.

James Strong - Insurance Australia Group - Chairman

Thank you very much and that now makes us all qualified experts in the use of the technology, so we'll move to the resolutions which require you to vote.

First of all, board positions. There are two candidates standing for board positions for reappointment. Ordinary resolutions 1 and 2 are set out in the notice of the meeting and relate to the re-election of two directors to the Board. I now propose to proceed to a discussion on each of these resolutions, 1 and 2. These items of business will be discussed in succession and polls taken after each resolution for attendees to register their vote.

By now you will have had an opportunity to read the explanatory notes that accompanied the notice of meeting. These notes give a brief background on the experience of each of these two candidates. All candidates must receive more votes from shareholders in favour than against in order to be re-elected.



I'll invite each candidate to address the meeting in the order of the resolutions for the re-election of directors set out in the notice of meeting and shareholders will then be invited to speak to the resolution.

The first resolution 1 is that Yasmin Allen be re-elected as a director, and I'll invite Yasmin to make a few brief remarks. Yasmin.

Yasmin Allen - Insurance Australia Group - Independent Non-Executive Director

Thank you Mr Chairman. Good morning ladies and gentlemen. I thank you giving me the opportunity to address your meeting this morning.

I'm proud to have spent the past five years working on behalf of you, the shareholder, at IAG. During the past two years since I was last re-elected IAG has worked hard to reinvigorate its core businesses and to exit some of its underperforming businesses. Your board and management are aligned with this strategy and as the Chair and CEO have already said today, we are well on our way.

The board will continue to focus on improving shareholder returns and is working hard alongside management to make the most of our opportunities. My background and experience enable me to be actively involved in this process, particularly in the areas of risk, strategic thinking and financial analysis. I've spent a large part of my career advising corporations and institutions both here and overseas, so I have a deep understanding of the elements of corporate success and I'm focused on shareholder requirements.

During the past few years I've also built up substantial insurance industry experience, through my six years tenure on the Board of the Federal Government's Export Finance and Insurance Corporation, and the past five years on the Board of this company.

I've recently been appointed chairman, of Macquarie Group's Global Infrastructure Fund, further highlighting the depth of my experience in the financial sector.

In my view, good governance does not guarantee good performance, but it is a prerequisite. IAG follows strict governance processes. The board conducts itself to ensure informed debate, independent evaluation and robust decision making.

During the year we took the step to combine IAG's audit and risk committees. This merger improves our efficiency of oversight and governance of financial reporting, risk and compliance. We've increased the number of members of this committee and we now meet more frequently to cover the additional workload.

The audit and risk committee is critical for the integrity of financial reporting and risk management, which as you know is directly correlated to investor confidence and company performance. As a director and chair of this committee, I will continue to ensure that IAG remains transparent and accountable in financial reporting and that both financial and operating risk continue to be rigorously assessed.

I am also a member of IAG's Nomination, Remuneration and Sustainability Committee. This committee looks at the structure of the Board, executive remuneration and IAG's sustainability practices. As I said previously, we structure the Board to enhance debate and decision making.

As shareholders, you require your investment to take measured risk in order to generate returns. In my experience with companies globally, I believe we have a world class management team who understand the balance between risk and reward and are working for the long term. I would like to take this opportunity to thank our executives for their hard work during a challenging year, recognising of course that our journey is just beginning. I have the time to fulfil my duties as a non-executive director of IAG. I have the desire and the commitment to serve a further term on this board. My depth of experience in the financial sector and more broadly is such that I can continue to add value for shareholders. Thank you.

James Strong - Insurance Australia Group - Chairman

Thanks very much, Yasmin. So this resolution is before you. If anyone wishes to speak in relation to this resolution please come to the microphone.

Operator

Mr Chairman, I'd like to reintroduce Joe Knaggy.

Joe Knaggy - Shareholder

This may sound like a silly question but I don't understand why the need for a re-election of directors if you're not opposed, if there's no-one else standing against you.

James Strong - Insurance Australia Group - Chairman

The Corporations Act requires it.

Joe Knaggy - Shareholder

Good answer.

James Strong - Insurance Australia Group - Chairman

We generally try to abide by the Corporations Act.

Joe Knaggy - Shareholder

It helps. The next question deals with, you talked about conflict of interest and again this may sound silly but on page two it says that the evaluation of the Board's performance is being handled by the committee of which Yasmin Allen is on board.

I can understand first of all how that can operate. And secondly, how in the world can you be fair-minded about this when you're making judgments about the people you sit on the Boards with, because if you don't give them a fair go when it's their turn to sit on a committee they might give you a bad go.

Yasmin Allen - Insurance Australia Group - Independent Non-Executive Director

We use independent advice to conduct our performance management of the Board as a whole.

James Strong - Insurance Australia Group - Chairman

In fact this year, it's now recommended good practice by the ASX that boards do have annual reviews of their performance., and generally what boards do is maybe one year the Chairman will have an individual discussion with each director about how things are going, how they're performing, how they think the



Board is meetings its objectives. But then periodically you will get an external person who is an expert or has a lot of experience in assessing board performance, and use that person to give a more third party point of view and they'll interview - the process generally involves them interviewing each director individually and then coming back and reporting to the chairman who then convenes a discussion where everyone is present and the external consultant will report back to the Board. And if necessary, things may come out of that about the level of contribution or input to the Board or areas where we can improve both generally and individually as well. That is now standard practice across Australia and we have actually just done it this year with an external assessor.

Joe Knaggy - Shareholder

My question then falls from your comments is what value is this for us shareholders? It's nice for you to know how your people are performing, what about us, how can we vote without the knowledge that you've got.

James Strong - Insurance Australia Group - Chairman

That's an interesting point and Michael has just reminded me that in order for there to be more than what you might call a general review, we've also in the last 12 months commenced a very detailed process where we call strategy mapping, where we outline every key element of the strategy that the Board has adopted and that the management has adopted and then we measure the performance by some empirical management against each of those strategy items. And it's done both in relation to the Board as a board as to whether they've met the objectives that they've set out which are all designed around getting a satisfactory return for shareholders, and then the Board reviews the scorecard for the individual managers in their performance as well. So there is very much a move towards quantifying and putting into empirical measurement the performance of both the Board and the senior management.

Unidentified Audience Member

(Inaudible question)

James Strong - Insurance Australia Group - Chairman

Thank you for that comment. Okay, there's another one from number one.

Operator

Yes, Chairman; it's Ian [Skandrid]

Ian Skandrid - Shareholder

Thank you Chairman. Just a qualification, I was just misunderstood and when I was originally wanting to make a statement, Brian Schwartz spoke. But I do have something I do want to ask Director Yasmin Allen on her address to us regarding her re-election from that address. You say Ms Allen that your focus on shareholder requirements, and as Joe has just pointed out with the matter to do with remuneration, I wanted to ask you what you think are the best methods you use in terms of communicating with the variety of shareholders this company has? You know I'm asking about the retail end of it...



James Strong - Insurance Australia Group - Chairman

Look, I have to intervene. It is not intended that there will be a detailed cross-examination of each director because the...

Ian Skandrid - Shareholder

A short answer will suffice Mr Chairman.

James Strong - Insurance Australia Group - Chairman

I'll answer the question. The reason for that is that what is done about the remuneration of executives in this company is a decision of the whole board.

Ian Skandrid - Shareholder

But that's not my question Mr Strong. It's just asking Ms Allen how she as a director, she as a director seeking re-election - I'm sorry to interrupt - what her best methods of communicating the shareholder base in relation to her comment that she's focused on shareholder requirements, which was a great aim for you to have. Thank you.

James Strong - Insurance Australia Group - Chairman

I'll reply again that we will not have detailed questioning of individual directors on matters that are a board decision and that's my ruling. Thank you.

Ian Skandrid - Shareholder

I'm sorry Mr Chairman. I don't think you've got the question here. I'm asking Ms Allen, who's seeking our votes, just to explain how she intends as a director to listen to the shareholders Sir.

James Strong - Insurance Australia Group - Chairman

I repeat to you that we are not going to have - every time we have a director election, a cross-examination of the director. The arrangement is that they will make a statement about why they're offering themselves for re-election. Anything to do with the remuneration policies is a matter for the Board, and that is my ruling. Thank you. Are there any other questions to do with this resolution?

Peter Starr - Shareholder

Mr Chairman, through you to Ms Allen, it's just in the --

James Strong - Insurance Australia Group - Chairman

Look, we're not going to have questions directed to the individual director. Can I make that plain?



Peter Starr - Shareholder

That's fine. I just want to clarify what's written here. It says that she is currently a director and then at the bottom it says that she doesn't hold any directorships. I just want a clarification. That's all James.

James Strong - Insurance Australia Group - Chairman

I don't know what you're referring to.

Yasmin Allen - Insurance Australia Group - Independent Non-Executive Director

I think that's a list of directors.

Peter Starr - Shareholder

Page 3 is the extraordinary notes.

Michael Wilkins - Insurance Australia Group - CEO

Mr Starr, that again, which was mentioned earlier by the chairman, is a Corporations Act requirement. You need to list directorships of other public listed companies and I'm not aware that Ms Allen holds any other directorships of public listed companies, but she does have directorships of other companies, which she's mentioned in her address.

Peter Starr - Shareholder

Okay, that's fine, thank you.

James Strong - Insurance Australia Group - Chairman

Okay. So I now direct that a poll for resolution 1 be taken and that attendees register their voting intentions by pressing the appropriate number on their keypad as shown on the screen, 1 to vote for, 2 against and 3 to abstain and we'll give you a pause to do that. Okay. So thank you very much ladies and gentleman. Your votes have been added to the direct and proxy votes received by the voting deadline and the preliminary result of resolution 1 is now shown on the screen. I'll declare the poll closed on resolution number 1. Resolution 2 is that Phillip Colebatch be re-elected as a director. The text of resolution 2 is set out in the notice of meeting and I'll invite Phillip to address the meeting.

Phillip Colebatch - Insurance Australia Group - Independent Non-Executive Director

Thanks James and good morning ladies and gentleman. Perhaps I should begin by reminding you from when I last spoke to you several years ago, that despite my accent I am Australian. I was born in Adelaide and grew up there, left there in my early 20s, which sort of embarked me on an international career, which has brought me to this particular point this morning.

In that international career I lived in Boston, New York, Hong Kong, Zurich and London and have spent many years on the executive boards of major financial institutions including Credit Suisse Group, where I



was the chief financial officer. I was then chief executive of Credit Suisse Asset Management and when I left that organisation in 2001 I then joined the executive board of one of the major re-insurers, Swiss Re, where I was on that executive board for several years. That has given me an international perspective, which perhaps is different from some of the other directors at the table, but it's the perspective which I'm very keen to continue to bring to the deliberations of this Board.

Over the last several years, I guess the topic is risk management, its relationship to compensation, particularly in banking institutions, less so in the insurance industry has become very topical. My background obviously has been very much on the forefront of those things for many years, and my experience in that area has sort of led me to be on the Risk Committee for IAG when it was a separate committee early on in my tenure on the Board, and more recently on the Remuneration Committee.

The opportunity to bring the experiences I have to - both acquired as an executive over the years and also continue to acquire in my role on other boards around the globe, is something which I'm also keen to pursue and continue for the benefit of the Company.

Over the last year or so we've been following a new strategy. You heard a lot about that from the Chief Executive and from other speakers. I believe that the Company is now on a very sound footing, and I very much look forward to the opportunity to continue to work with my colleagues on the Board here over the next several years to see that strategy prosper and evolve as the things unfold over the next several years. Thank you very much.

James Strong - Insurance Australia Group - Chairman

So are there any questions in relation to Resolution 2? Okay. In the absence of that, that concludes our introduction of Resolution 2. I now direct that the poll for Resolution 2 be taken and that attendees register their voting intentions by pressing the appropriate number on their keypad as shown on the keypad screen, thank you.

Okay, thank you ladies and gentlemen, your votes have been added to the direct and proxy votes received by the voting deadline, and the preliminary result of Resolution 2 is now shown on the screen. I now declare the poll closed on Resolution 2.

Resolution 3 relates to a refresh 15% capacity following the placement in February 2009. Resolution 3 is to seek shareholder approval of the institutional placement of 150 million ordinary shares in February 2009. The text of this resolution is set out in your Notice of Meeting. Under the Australian Securities Exchange listing rules, a company may in any 12 months period issue without the prior approval of shareholders new shares of up to 15% of the number of shares on issues 12 months before the date of issue. This is called the 15% in 12 months limit.

The ASX listing rules allows shareholders to vote to exclude from the 15% in 12 months limit an issue of shares made some time in the preceding 12 months. If shareholders vote to approve this resolution, then the shares that were issued will not be counted in calculating the 15% in 12 months limit for the Insurance Australia Group Limited.

IAG has no present intention, as we indicated earlier, to issue more shares other than in relation to the Company's dividend reinvestment plan. If the resolution is not approved the shares issued remain valid but the shares will be counted towards the 15% in 12 months limit.

If anyone wishes to speak in relation to this resolution, would you please make your way to the microphone. I think you can see that this is largely a formal procedure, but we welcome any comment.

No comment on Resolution 3, I direct that a poll for Resolution 3 be taken and that attendees register their voting intention by pressing the appropriate number on their keypad as shown on the keypad screen.



Thank you ladies and gentlemen, your votes have been added to the direct and proxy votes received by the voting deadline, and the preliminary result is now shown on the screen. I declare the poll closed on Resolution 3.

Resolution 4 is the adoption of the remuneration report. This resolution is put to the meeting in accordance with the Corporations Act, the resolution is that the Company's remuneration report for the financial year ended 30 June 2009 be adopted. Mr Brian Schwartz on my right is the Chairman of the IAG Nomination, Remuneration and Sustainability Committee and will address the meeting on this resolution. I'll ask Brian to address you, thanks.

Brian Schwartz - Insurance Australia Group - Independent Non-Executive Director

Thank you Mr Chairman, and good afternoon ladies and gentlemen. The Group's Remuneration Report on pages 18 to 35 of the Annual Report outlines in considerable detail the remuneration practices of the Group and the remuneration of Directors and Executives.

As a result of increasing complexity of remuneration reports, the Board thought it would be beneficial to highlight some of the key remuneration decisions taken during the year and to briefly explain the key elements of our remuneration strategy. We're doing this in the hope of clarifying it, but it is very complex and complicated.

We're very mindful of the issues currently under debate in the broader community and are pleased to report that there's a high degree of alignment between our present remuneration practices and the reports from various reviews. However there's always room for improvement and this year we've made changes to a number of key remuneration policies to ensure we remain in step with best practice.

Firstly, the Board has decided, as you've heard already, there could be no increases in fixed pay of Executives in the 2010 financial year and I should say that this decision was readily supported and indeed recommended by management.

Second, there will again be no increase in fees payable to directors. This means that directors' fees haven't increased since 2007, July 2007.

Third, we have discontinued the non-Executive Director share plan and implemented a policy which requires Directors to obtain an IAG shareholding with a value equal to their annual Board fees within three years of taking on the role.

Fourth, caps have been placed on the short term and long term incentive opportunities provided to Executives.

Fifth, the performance hurdles for future grants of long term incentives under the executive performance write plan have been adjusted so that IAG's performance will be benchmarked to have a better match of comparable companies, the top 50 ASX industrials.

Finally, the Board has decided that whilst it's not required to do so, in the interests of good governance, it will seek shareholder approval for grants of share rights to the Managing Director and CEO and that's the resolution following this one.

to attract and retain high quality people, the best people; to reward superior performance; to strike a balance between rewarding short term and long term interests; and to align remuneration with the returns delivered to you, our shareholders. I'll now address each of these in a little more detail.



Our remuneration policies must enable us to attract and retain the best insurance executives in the markets in which we operate. We do this by providing executives competitive fixed pay as well as the opportunity to have short term and long term incentives based on a range of financial and non-financial measures. When setting fixed pay we engage external advisors and consider the fixed pay of executives in comparable companies of a similar size to IAG. We seek to position that fixed pay at the middle of the market.

When the short and long term incentive opportunities are added to fixed pay, Executives have the opportunity to earn total remuneration that is at the top quartile of the market. However it's important to note that that only occurs when superior performance and results are achieved and I will cover those.

The second objective is to reward superior performance. Our short term incentive plan is directly linked to our corporate strategy which is set annually and which outlines how the business will compete in its chosen markets and create value for our shareholders. To measure performance against agreed strategy, we use a balanced scorecard. Importantly, the measures in the balanced scorecard relate to both financial measures such as return on equity and profit and on non-financial measures such as the achievement of customer satisfaction, employee engagement, effective risk management and internal process improvement. You heard the Chairman speak about that a little while ago and this is a new initiative which has certainly added to the process.

This balanced scorecard approach begins with the Board - and I don't know that there are any other Boards that have their own balanced scorecard but this one does - and is cascaded throughout the Group so that every employee has goals and objectives that are consistent with and support the delivery of the Group's strategy. On average, the STI payments made to the executive team in 2009, the year just passed, were about half the maximum that they were able to achieve. So whilst this reflects an improvement on the prior year, it does also indicate that we've got significant scope to improve further, both financially and non-financially.

Our short term incentive plans are based on the delivery of strategic priorities that are measured over a 12 month period. Two thirds of the short term incentive is paid in cash, which is quite normal and the remaining third is provided as a grant of share rights which vest progressively over three years. So a third of the short term incentive is in share rights and the ultimate value of that deferred STI payment is directly linked to changes in the value of IAG shares, again, directly linked to the interests of shareholders. The deferral is a mechanism to retain Executives over that period and to ensure they are focused on business performance beyond just the current year.

Our long term incentive plan, which is in the form of executive performance rights, creates another link between the achievement of the strategic financial targets set by the Board and the remuneration of the Executive team. Executive performance rights may be exercised for shares between three and five years after they are granted, but only if certain performance hurdles are achieved, and these hurdles are very significant. For the executive performance rights to fully vest, 100% vest, the Group's total shareholder return when measured for over a three to five year period must rank in the top quartile of the top 50 ASX industrial companies and the Group's average return on equity measured over a three year period must be 1.8 times higher than the Group's cost of capital.

Now to put that in context, the Group's capital - that would result in an insurance margin of about 15% to 16%, for them to achieve the 1.8 times. That 15% to 16% compares to 7.1% achieved in the current year. So they need to achieve double. Indeed, the 1.5 times, which is only where it begins to kick in, requires an insurance margin of some 13%.

These are very challenging performance hurdles. Despite the value of executive performance rights being published, as though they're included in the remuneration - and indeed, the reports that you see include them - they don't automatically vest. In fact, no financial benefit is achieved for at least three years and only then if the performance measures that I've mentioned hurdles are met.



In addition to the various incentive plans, the Board has established a share ownership policy where each director and member of the executive team must acquire and maintain a substantial shareholding in the Company.

So in summary, our approach to remuneration seeks to balance the objectives of attracting and retaining quality executives while ensuring that remuneration is not out of step with the market, the community or our shareholder expectations. It seeks to reward superior performance and it provides incentives to create value for shareholders but always with a focus and risk management to ensure the business remains financially sound.

In the year ahead, the Board will continue to review remuneration practices in light of the substantial and continuing regulatory changes that are occurring. Thank you for your attention and on behalf of the Board of directors I commend the remuneration report to you. Thank you.

James Strong - Insurance Australia Group - Chairman

Thank you very much Brian. So we'll now take any speakers or comments on this resolution.

Operator

Yes Chairman, a question over here from Mr Michael Perry.

Michael Perry - Australian Shareholders Association - Representative

Thank you Chairman and thank you Mr Schwartz for your explanation of your extremely complex remuneration report. I can certainly endorse that, having tried to plough through the whole of it. I do appreciate the summary at the beginning. That helped quite a lot. Please do that again.

I intend to vote open proxies in favour of the report, however, I do have some concerns which I'd like to draw to your attention, which probably won't come as a surprise to Mr Strong, who's heard me say one or two of these things before.

I have concerns about the long-term incentive plan, in particular the element which is based on total shareholder return. Now I acknowledge that there are twin hurdles that had to be achieved, consequently this to some extent dilutes our concern. Nevertheless, the concerns are very real.

Firstly, the TSR element vests 50% on achieving the 50th percentile. This Chairman is not superior performance. I think base pay is by any standards quite generous and if performance is in the middle of the pack then I think base pay is appropriate. Incentives should cut in for superior performance as Mr Schwartz has indicated, so we agree on that. But I don't agree that performance at the 50th percentile is superior because that's in the middle of the pack.

My second concern is that vesting starts at the third anniversary for the long-term incentive. Now, that's not I believe long term. I think it should start at the very earliest at the fourth anniversary.

My third concern is that - going back to the TSR element again - in effect there are three bites of the cherry. Vesting starts on the third anniversary and if performance subsequently declines then that vesting remains. However, if performance over the total period improves then the award increases.

So in other words it's a ratchet which only goes one way. I don't believe that is a good alignment with the interests of shareholders who have to suffer the full impact of any declines in performance.



Now, lastly - and I mentioned this fact before I'm sure at your earlier meetings - the TSR is based on relative performance so it is actually possible - and I've seen this in other companies, fortunately not in yours, to date - it's possible in times of really poor general financial performance that there can actually be a payment of long term incentive when the shareholders' return has actually gone absolutely backwards, and that's hardly in alignment with shareholders' interests either.

So to sum up Chairman, I really have some concerns about your long term incentive plan, particularly the TSR element. Since it is only one part of your overall remuneration, we don't propose to oppose the report on this occasion but I shall be voting undirected proxies against the following resolution, number 5. We won't support any additional awards, which are proposed on this basis. Thank you Chairman.

James Strong - Insurance Australia Group - Chairman

Thanks Mr Perry. I don't intend to go back over our sort of reasoning why we've done things because as you've acknowledged they are expressed there. I think in relation to the TSR your last point about well, it's relative performance but it mightn't be very good is a valid point and that's why we did split it into the two measures. The other relates to our financial performance and you acknowledge that so I think we'd both say well we understand the point that's being made there. But that was the major intention, to split those to avoid a relatively not so good performance still getting rewards.

In terms of the way you said it ratchets up in one way the vesting starts. That is one way of viewing it but the opposite would be to say well we give it to you this year for the performance but we want it back next year if it's not so good. Our point would be that to say that the executive only gets to share in the upside if shareholders have shared in the upside, and then if it's not as good the following year there's nothing there. But it then could still kick in with good performance on the third anniversary so I acknowledge your point, but I think our response to that is that the upside only works when the shareholders get the upside. Other than that I don't know. Brian, did you want to make any further comment?

Brian Schwartz - Insurance Australia Group - Independent Non-Executive Director

James - Mr Perry thank you, and you've certainly given us notice and we've had some detailed discussion on these points. I think I would only add by saying that - and you'd identify - we have the two measures. Some are measured over three years, some are measured over three, four or five years. We think it's a balance that gets it right at the end of the day and no one in isolation. If you achieve the 50th percentile you actually only earn 25% of your LTI at that point in time and that's a point that we think is relevant to the discussion. But we certainly continue to listen and we continue to find the right solution, but always I think the challenge is to find a way to attract and retain the best people and to do that we have to make sure that it is achievable and attainable. But certainly hearing your points, thank you.

James Strong - Insurance Australia Group - Chairman

The other comment that I'd add Mr Perry and that you've acknowledged this well yourself before. One of the problems is that these things are getting so complex. I had one shareholder wrote me a really irate letter and he said he'd read the remuneration report and he was none the wiser having read the whole document, than he was before he started out. It is a real problem. This is getting so complex and the sort of structures are getting so complex. It is a matter of some concern and whether over a period of time we can move back to more simple straight up and down methods of remuneration, I think, is quite an important issue.

Operator

Yes, Mr Chairman, I would like to introduce Mr Keith [Isan] to the microphone.

Keith Isan - Shareholder

Excuse me Mr Chairman, I think I might have jumped out of order here because I'm looking at resolution 5. Are we...

James Strong - Insurance Australia Group - Chairman

No, that's our next item. You can have a good go then...

Keith Isan - Shareholder

I'll have to wait till then.

Ian Skandrid - Shareholder

This is the question I was going to ask before Mr Chairman. James, this goes to the heart of what you've just said and that is that the remuneration issue is becoming particularly complex and I notice Brian nodding there. That is how we see the small retail investors. In that sense I'm going to ask through you Mr Chairman, Mr Schwartz, will you look at preserving your speech and the notes of it as I previously referred to for the Chairman and the CEO's report on the web and in the archive on the web, so that investors like ourselves and those not present can refer back to it, can digest it, that sort of thing? Thank you.

Brian Schwartz - Insurance Australia Group - Independent Non-Executive Director

They actually are on the web as of this morning.

Ian Skandrid - Shareholder

They'll be preserved?

Brian Schwartz - Insurance Australia Group - Independent Non-Executive Director

Yes.

Ian Skandrid - Shareholder

The video as well?

James Strong - Insurance Australia Group - Chairman

Not the actual delivery I don't think.



Ian Skandrid - Shareholder

Look James, some of your answers, and others, I think, are quite relevant so people can refer back to them and say yes, it's, look, an open transparency, it's about talking to small shareholders.

Operator

Yes Chairman, I would like to reintroduce Joe Knaggy.

Joe Knaggy - Shareholder

Mr Chairman, I reiterate the remarks that a few of you up there have made and also that have been made by speakers here. This is a very simple issue, the problem is the resolution of which is very, very complicated. I can't express that any more. But the issue is very simple -- how do you align executive remuneration for the good deeds they've done with the matching of the returns that are expected from the remuneration? I've spoken to you about this before, especially when we talked about your other chairmanship at Woolworths where it's quite easy to do that because the results are right there. But when you get into banking and insurance, these matters go later.

The other point I want to raise with you again is how do you measure the fact that achievements have been made? When you look at an issue like acquisitions, there may be acquisition profits there, they may be apparent. But in a year or two or three later, as we've seen a couple of years ago with the UK business, alright, they're not there, they disappear, but the remuneration's gone out the door. That's the issue. I don't know what the answer is, but go ahead.

James Strong - Insurance Australia Group - Chairman

Thanks for dumping that. There's a lot of validity in what you've said and what Ian said before. I mean this is a result of an accumulation of moves in this area over the last 15 to 20 years. Is everybody happy with how this developed? The answer to that is no. As you know, what a lot of people are trying to direct their mind to is how can you make the payment relate to longer term results and not the immediate outcome which is exactly what you're getting at if I understand you correctly.

Now I think that some of the ideas that are being kicked around at the moment are going in the right direction about that. As you know, there are three government inquiries going on at the moment. We'll be rescued by inquiries if nothing else. Where they're all going to end up, I don't think anybody knows at the moment, but I do know that some of the healthy things that are occurring in this big debate is making there be more proximity to the eventual outcome of the decision than to when it's actually taken and I think that's a much, much bigger issue in the financial sector than it is for us, but your comment is right, that the insurance industry, the results can be some time beyond. So there are some interesting ideas being kicked around in that area.

I think there's a general agreement that the world lost sight of risk, big time, in recent years and the culmination of greed and risk produced some terrible outcomes --

Cecelia Cook - Shareholder

And global warming.

James Strong - Insurance Australia Group - Chairman

And global warming. So I don't have a simple solution to this Joe, but I think that out of the various work that's being done both by the Government but also by boards off their own initiatives, everyone is trying to get a better relationship and everyone accepts that they've been outcomes which have not been right. In some cases they've been terrible, not in our case in particular, but in some other investment cases. But that certainly is something that I think boards are going to have to keep working on, otherwise shareholders will continue to be very unhappy about it. I can assure you that message is clear.

Operator

I would like to reintroduce Gregory Simoni back to the microphone.

Gregory Simoni - Shareholder

G'day, through you, Mr Chairman, let's hit the complexity on the head. Return on equity, net income after tax over shareholder equity, is that an actual figure, or is that an estimate figure? Let's break down return on equity DuPont formula. Net income over sales, is that income an estimate or an actual figure at the point of vesting? Is sales an estimate figure or an actual figure at the point of vesting? So the question is - with the figures, are they actually - whether it be return on equity or the weighted average cost of capital - are the formulations based on estimates or are they more or less figures derived by the Company by the various sections of the Company and then paid out to the executives? Thank you.

James Strong - Insurance Australia Group - Chairman

I get your point. They're based on actuals. They have to be. The weighted average cost of capital is of great interest to us in terms of investment and returns to shareholders and so on, so it's a criteria that we use in making major decisions about investment. So those are all actual figures, performance figures, in relation to sales et cetera.

Okay, so any other discussion? So we'll take that as a conclusion of the discussions, resolution four and I'll direct that the poll be taken and that attendees register their voting intention by pressing the appropriate number on the key pad as shown on the key pad screen.

Thank you ladies and gentlemen. Your votes have been added to the direct and proxy votes received by the voting deadline and the preliminary result of Resolution 4 is now shown on the screen. I declare the poll closed on Resolution 4.

Resolution 5 is approval of the share rights to Michael Wilkins, Managing Director and Chief Executive Officer. Approval is sought to allocate the deferred award rights and executive performance rights to separate categories during the financial years ending 30 June 2010, 2011 and 2012. There is a very detailed explanation of the deferred award rights plan and executive performance rights plan in the Notice of Meeting.

The deferred award rights are granted as part of the annual short term incentive. The Board has decided that rather than providing a short term incentive entirely as a cash payment, it would be better if a portion would be provided in the form of rights over shares which vest to the executive over a three year period. Brian mentioned when he spoke about the remuneration report the Board has taken this approach to ensure that executives are focused on long term business performance and to come back to the comments that Joe made before, it introduces a delay to get a picture of the outcome.

The executive performance rights are granted as a long term incentive. These share rights may be exercised for shares between three and five years after they are granted, but only if some quite

challenging performance hurdles are achieved. In determining the number of rights to be granted to Mr Wilkins, the Board engaged PWC, PricewaterhouseCoopers to provide an independent assessment of his remuneration. It is important to stress that the exercise of executive performance rights for shares is subject to achieving performance hurdles which align with value for shareholders. If the performance hurdles are not achieved, Mr Wilkins will get no value from these grants of executive performance rights. If the performance hurdles are achieved, shareholders will receive very substantial returns and Mr Wilkins will be properly rewarded.

The Board with Mr Wilkins abstaining, recommends that you vote in favour of this resolution. Anyone wishing to speak would you go to the microphone.

Keith Isan - Shareholder

I am a little puzzled with respect to the formulae used to determine number of rights. In each case, this is on page 4 of the explanatory notes, the two formulae, one for the short term incentive rights and the long term, we are dividing by the share price near the time.

James Strong - Insurance Australia Group - Chairman

Yes.

Keith Isan - Shareholder

We're dividing by the share price. Is it really meant that the higher the share price - I know that the shareholders like higher prices - the higher the share price, the fewer will be the rights which would accrue? We are dividing by the share price, so if the share prices are down low, there'll be more rights; if the share price is up, there'll be fewer.

James Strong - Insurance Australia Group - Chairman

Yes, I get that it seems strange, but the point is that there has to be a cap on the amount and so therefore it's to a value and therefore it's just a division by the number of shares to get to that value. It sounds incongruous but that is fulfilling the intention of the amount of money that they could be worth to the executive.

Keith Isan - Shareholder

I think you said it depends on the number of shares, but it's the share price.

James Strong - Insurance Australia Group - Chairman

Yes, the share price. You understand the point though that there has to be a limit too and we decided to cap these.

Peter Starr - Shareholder

Yes, thank you Mr Chairman. Given that the PARs that we gave to Michael Hawker in 2003, '04 and '05 were 400,000, 500,000 and 600,000, I think that the new scheme that we've come up with for Mr Wilkins



is much better given the things that we did with Mr Hawker weren't real good, and what he got. Just what's the difference basically with the PARs and now what we're going to do now for Mr Wilkins?

James Strong - Insurance Australia Group - Chairman

I'm going to have to call on Alex. Where's Alex? Talking about complexity, you're taking us to another one about what the PARs were and so on. And, by the way, those others didn't vest where the performance didn't occur, as you'll appreciate, and that's the basis.

Alex Christie - Insurance Australia Group - Deputy Head, HR

I'll just explain the key differences between performance award rights plan which was the previous long term incentive plan, and the executive performance rights plan which is the new plan, that's subject to this resolution. The key difference is the use of the two hurdles, which has been referred to before, so we now use both the return on equity hurdle relative to the cost of capital and the TSR hurdle. The previous being only use for total shareholder return hurdle. We do think that is a better approach to take, so that is the most substantial difference.

James Strong - Insurance Australia Group - Chairman

My apology, I should have introduced that, Alex Christie who is the Deputy Head of HR.

Keith Isan - Shareholder

Thank you Mr Chairman, yeah, I knew what it was, just for the other shareholders who may not have known.

James Strong - Insurance Australia Group - Chairman

Okay, thanks. See, he's been doing his homework.

Operator

Mr Chairman, can I reintroduce Gregory Simoni.

Gregory Simoni - Shareholder

Through you Mr Chairman, okay resolution five seek shareholder approval to allocate the rights to the CEO, Michael Wilkins, but I suspect that the vote with regards to this share rights issue is retrospective in that the contract's already been drawn up and it's already been signed probably some weeks or some months ago. So my question is to add weight to our vote today, will you adopt the Productivity Commission's recommendation to allow shareholders to have a direct vote on Executive remuneration and share rights issues? Thank you.

James Strong - Insurance Australia Group - Chairman



Your first point is not right that there's a contract saying this. This is a matter which is being put to the shareholders for approval. We don't technically need to do it, but we think it's proper that it should be done that way and that the shareholders should be fully aware of it.

The second one, the Productivity Commission, as you know, there are a number of proposals contained in their report. I'm not sure that it actually produces what you suggested Gregory as being the outcome. What the Government does about the future voting on remuneration reports, which I presume is what you're getting at, I think is going to go through a few permutations and combinations because I think it's evident that there are some problems with the proposal that's been put forward by the Productivity Commission. But I can understand I think they've done that in a way to promote discussion about that point. But unfortunately it could end up that a vote on the remuneration report could be a way of overturning the Board for reasons unrelated to the remuneration report.

But anyway, obviously whatever the government policy is that comes out of that, we'll obviously be bound by it, certainly. We've read the report with some interest and await the next stage of the developments on it.

I know this is an issue of interest, but I think an enormous amount of information has been supplied, hopefully that's been of some help. So, if that concludes the discussion on resolution five, I direct that the poll for resolution five be taken and that attendees register their voting intention by pressing the appropriate number on their keypad as shown on the keypad screen.

Thank you ladies and gentlemen, your votes have been added to the direct and proxy votes received by the voting deadline and the preliminary result of resolution five is now shown on the screen. I declare the poll closed on resolution five.

By the way, Mr Perry, I didn't - is Mr Perry still there? Yeah. I noted your comment also about what is long term and three years and five years which is a subject that I think is under debate as well, so just wanted to say that I didn't miss your point about that as well, if I could just record it.

The results of the polls will be provided to the Australian Securities Exchange as soon as they're available and will be placed on the Company's website and posted at the Company's registered office tomorrow. I'd like to now declare the meeting closed, but before I do, can I say this is my ninth and obviously last chairmanship of the AGM. They've been pretty interesting AGMs from time to time as many of you know. There are lot of people here who have attended all of them. It started, from my point of view in 2001 when there was what you might call a fair bit of conflict and disharmony, but since then we've had some interesting Board meetings. Unfortunately we've had a couple of issues, the smash repair period I remember provided a pretty lively meeting.

Then of course the storm that hit us last year with the result which the Board, I hope you see, took full responsibility for it and decided to do some very big changes in order to repair the situation. So I'd just like to say to shareholders, thank you for your patience. I've enjoyed being Chairman of the Company and I will be until the end of this financial year, but I'm also very, very pleased to be handing over to Brian who is a very decent person and will do a very good job as your new Chairman. So thank you very much.

Thank you. I now declare the meeting closed.

Unidentified Audience Member

Mr Chairman, you and I have spoken on many occasions at these forums and other instances, as I know you have with other people in this room. And I'd just like to record our appreciation, as you won't be in the chair next year, of the manner in which you have conducted yourself in that time, Sir.



Unidentified Audience Member

Here, here.

James Strong - Insurance Australia Group - Chairman

Thank you very much. Thank you. I appreciate that comment, thanks. I declare the meeting closed subject to the determination of the results of the polls. On behalf of the Board and the Directors, I would like to thank all of you as shareholders for coming to the meeting and for contributing to the discussion.

Thank you very much. The meeting is closed.

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