

Start of Transcript

James Strong: Ladies and gentlemen. Welcome to the 2007 Annual General Meeting of Shareholders of Insurance Australia Group Limited.

It is past the appointed time. The company secretary has informed me that a quorum is well and truly present, so I declare the meeting open. My name is James Strong. I'm the chairman of directors of Insurance Australia Group Limited, and in accordance with the company's constitution, I am the chairman of this meeting.

I'd just like to introduce to you, although obviously there are names right along here.

From my left, Brian Schwartz, Rowan Ross, Anna Hynes and Neil Hamilton who are all non-executive directors.

Next to me of course is Michael Hawker who is the chief executive.

Glenn Revell is the company secretary on my right, and then the other non-executive directors, Hugh Fletcher, Phillip Colebatch and Yasmin Allen.

I'd also just like to extend a welcome to shareholders who are viewing the meeting via the webcast as is practiced these days.

Before we commence the business of the meeting, I'd like to provide a brief overview of Insurance Australia Group's performance for the 2007 financial year in some chairman's remarks, and then I'll ask Michael Hawker to provide a more detailed review of the operations and the financial performance of the company. I'll just stand up and deliver the chairman's address.

Before we commence the business of the meeting, I'd like to provide a brief overview of Insurance Australia Group's performance for the 2007 financial year. I'll also provide a summary of the resolutions which are to be put to shareholders at today's meeting. I will then ask chief executive Michael Hawker to provide a more detailed review of our operational performance and strategy and an update on the group's outlook for the current year.

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In the 2007 financial year, IAG increased its revenue or gross written premium by 15 per cent from the previous year up to \$7.4 billion. This was ahead of our 12 to 14 per cent gross target.

Two key factors contributed to this improvement. First our domestic businesses return to growth mode, particularly in our largest portfolio of directly sold home and motor insurance. And second we recorded the first revenue contribution from the businesses we acquired in the United Kingdom during the year.

Whilst this top line growth was pleasing, a number of factors during the year meant our reported profit was disappointing. We recorded a net profit after tax of \$552 million compared with \$759 million in the previous year.

A significant impact on our profit was a \$200 million net loss caused by severe storms in June in both Australia and the United Kingdom. We incurred amortisation costs associated with our international acquisitions and we also had lower investment returns on shareholders' funds as we have sold down our investment portfolio to invest the proceeds in our core insurance business during the year.

Notwithstanding these factors, we made progress against our fundamental strategy. We expanded our international business, further diversifying our operations and spreading our risk with the aim of generating sustainable levels of profitability over the longer term.

We now have a portfolio generally of long term quality offshore assets. Hastings in the UK is facing challenges in the immediate future, and our CEO will demonstrate in his operational review how we are responding to the prevailing market conditions in that market.

At the same time as expanding overseas, we grew our businesses and maintained our leadership positions in our home markets of Australia and New Zealand.

I'm also pleased to report the group's capital position remains very strong. As at 30 June we held 1.67 times the minimum level of capital required by our regulator. This reflects our conservative risk appetite

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which is also evident in the cautious approach we take to reserving as demonstrated by 10 consecutive years of reserve releases.

The board created a final fully franked dividend of 16 cents per ordinary share which was paid on 8 October 2007. This brought the annual dividend for the year to 29.5 cents per ordinary share which was in line with the dividend paid for the previous financial year. We expect to maintain dividends at the same level in the current financial year.

When viewed against the past five years, ordinary dividends paid to shareholders have grown at a rate of almost 23 per cent.

The past year has brought some changes to our board. Mr John Astbury and Mr Geoffrey Cousins who both joined the board shortly before IAG became a listed public company in 2000, retired after the end of the reporting year, actually on 31 August.

On behalf of the boards I would like to thank both directors for the very valuable contribution they have made to the group during the past seven years. They both played a significant role in guiding us from listings through a period of rapid growth.

We also welcomed three non-executive directors to the board during the year. Mr Phillip Colebatch was appointed on 1 January 2007. Mr Hugh Fletcher and Ms Anna Hynes joined on 1 September 2007.

Each of these directors brings to the board a wealth of experience, particularly in the insurance and financial services sector.

We now have directors based in Australia, the United Kingdom and New Zealand. We believe this is an important reflection of the continued strengthening of our international governance principals and risk framework as we expand offshore.

I will ask each of these directors to speak to their nominations for re-election before you have the opportunity to vote. That's later in the formal proceedings of the meeting.

Since the end of the reporting year, your CEO, Michael Hawker has also strengthened his executive management team by creating the role of chief operating officer and appointing Mr Mike Wilkins to this role.

Mike Wilkins is highly respected in the industry and in the broader business community. He has an impressive career which includes more than 25 years in the insurance and financial services sector. Most recently as you would know he was managing director of Promina, formerly one of Australia and New Zealand's leading insurance groups.

Mike Wilkins will report to chief executive Mike Hawker who will continue to focus on executing the group's strategy. Mike Wilkins has also agreed to join the board as an executive director.

As a company with one of the largest number of shareholders in Australia, we take very seriously our commitment to and relationship with our shareholders. A key development during the year was the introduction of regulatory reform that has changed the obligations of companies providing annual reports to shareholders. Companies are no longer obliged to mail hard copies of annual reports to shareholders unless requested to do so.

To ensure our shareholders remain fully informed of our activities and performance, we will continue to make our annual reports available on our website and we will offer shareholders a choice to be mailed a short shareholder review, or the full statutory accounts as they wish. You will have recently received an annual report options form with your mailed copy of the annual report, and can indicate your preference going forward on that form. You can always change your preference by contacting the share registry.

We welcome the benefits brought by this reform, particularly from an environmental and cost management perspective. It reduces the number of documents that need to be printed and transported, preserves resources, and reduces our expenses.

A further development during the year was a resurgence of activities by companies making under valued offers for IAG shares. Sometimes offering effectively as little as half of the values of the shares that were trading at the stock exchange at that time. Such offers have been posted as recently as last month.

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IAG does not endorse any unsolicited offer to buy your shares in IAG, and shareholders are under no obligation to take any action in relation to such offers. Some shareholders have voiced concern that their details have been provided by IAG to these companies. I would like to emphasise that under the corporations law we are obliged to provide information contained in our share register when asked to do so.

We are continuing to inform the Australian Securities and Investments Commission of any attempts to contact our shareholders. We have also continued to make representations to the Federal Government to consider amending the existing Corporations Law to introduce a proper purpose test for those requesting a copy of the share register of public companies.

We will continue to alert our shareholders about these offers through media campaigns, direct mail, and by ensuring our website prominently displays any current warnings about undervalued offers.

Turning to the business of the meeting, I'd now like to briefly summarise the resolutions which will be put to shareholders at today's meeting.

As noted in the notice of meeting, resolutions one and two ask you to vote on the re-election of Yasmin Allen and Brian Schwarz.

Resolutions three, four and five ask you to vote on the election of Phillip Colebatch, Hugh Fletcher and Anna Hynes, the directors I previously referred to as having joined the board during the year.

Resolution six gives you the opportunity to vote on the remuneration report which is included in the annual report.

I would like to emphasise that the matter of remuneration is one that is looked at in some detail to ensure that we can attract and retain the best people and reward their performance in line with returns delivered, and so achieve superior, long term performance.

The report mentions the role and responsibilities of the board's Nomination, Remuneration and Sustainability Committee. The committee provides assurance relating to the effectiveness, integrity

and compliance of our remunerations policies and approach, and ensures they fit the strategic goals of the company.

This committee also receives reports from external executive remuneration specialists to help form those views.

We are currently in the process of introducing a number of changes to our remuneration policies. These changes aim to build amongst our executive and senior management teams, a culture of ownership without increasing the cost of remuneration to the company.

We believe the best way to achieve alignment between the interests of the shareholders and executives is to ensure that the executives are also owners in the company just as other shareholders are.

During the 2007 financial year we introduced the deferred award rights plan. A deferred award right is a right to acquire an ordinary IAG share subject to continued employment with the group for a period determined by the board.

The plan was introduced to help ensure retention of key executives as the value of any share acquired through the plan will fluctuate in line with the performance of the group. The plan again provides a strong incentive to grow shareholder value.

You can find more on this plan in note 28 of our full financial year statements.

We have also introduced executive performance rights or EPRs to replace our existing long term incentive scheme, the performance award rights or PARs.

The new EPRs are similar to the old PARs in that they provide a long term performance based incentive to senior executives, but there are important differences. The main difference is the introduction of two performance hurdles for the EPRs rather than one. Half of an EPR grant becomes exercisable if our total shareholder return is at or above the 75th percentile of our peer group. And the other half can be exercised if return on equity is 60 per cent higher than our weighted average cost of capital.

This coming year we are also introducing minimum shareholding levels for executives. The group CEO and members of the executive team will be required to establish and maintain a minimum shareholding in the company, calculated as a percentage of their base salary.

With the introduction of the new plans we are coming to a remuneration structure under which a significant proportion of the executive remuneration is at risk. Meaning that a certain level of performance must be reached before this part of remuneration is granted. This provides a clear incentive to our key executives to further support shareholders' interest.

Resolution seven relates to the proposal to increase the maximum aggregate remuneration payable to the company's non-executive directors from \$2 million to \$2.75 million.

As is usual, not all of this increase is planned to be used immediately. The proposal allows for an increase in the number of non-executive directors on the board from seven last year to eight in the current financial year.

It also follows an independent review of the director's remuneration and takes into account the strengths in corporate governance structures required by our international expansion. It also picks up the fees which now are payable in New Zealand and the UK for directors duties in those countries.

The proposed increase also reflects the increased responsibilities of the board and its committees, and the expanded roles of some of its directors, and here I'm referring to Mr Colebatch and Mr Fletcher, who in addition to their main board responsibilities also chair the boards of our two main subsidiaries in New Zealand and the UK, and each of those businesses obviously supports or reports to regulatory authorities in those respective countries.

Looking forward we have created scope for continued progress on multiple fronts by ensuring sustained improvement domestically, and by building the new growth platforms internationally. Our aim remains

to deliver returns to shareholders of at least 1.5 times our weighted average cost of capital.

For the 2008 financial year we are targeting an insurance margin of 11 to 13 per cent, barring any other major losses for the year outside our normal allowances.

The board has worked closely with our executive team led by CEO Michael Hawker, and on behalf of all members of the board, I'd like to thank them for their commitment and to their performance for the group.

I'll now ask Mr Hawker to make a presentation to you on the details of the business. Thank you very much.

Michael Hawker: Thank you very much James, and good morning ladies and gentlemen and fellow shareholders.

This morning I plan to cover three things. Firstly to reiterate our strategy. Secondly to provide an overview of our performance for 2007. Thirdly to discuss the company's outlook.

First let me start with our company strategy. The strategy for the company remains focussed on general insurance. As we have previously stated, to maintain our competitive position, we believe we need to double the size of the company every five years.

This equates to a compound annual growth rate of 15 per cent per annum. We'll achieve this through a combination of both organic and acquisitive growth, while maintaining the capital strength and the performance of the company.

We believe our strategy will ultimately deliver long term sustainable returns. However we acknowledge our short term performance has been disappointing due to a number of factors. I'll outline these challenges and our plans to address them later in my presentation.

As you can see from this slide, initially we generated this growth by expanding out of New South Wales into the rest of Australia and New Zealand. We are now one of the largest general insurance groups across both these markets and as a result have sought growth opportunities offshore.

Our expansion offshore has two areas of focus. Firstly we have sought to expand into selected emerging markets of Asia where we take our competitive advantage into immature, high growth markets.

Secondly we have targeted selected OECD markets where we gain a capital diversification benefit and can purchase assets which we believe are competitive and are well positioned, and will benefit from further developments within these markets.

As a result our company is substantially more diversified than it was six years ago. In 2001, 60 per cent of our premium was concentrated in New South Wales and ACT. Today that number stands at 36 per cent.

At the same time we have also created better diversity by product, and a reduced exposure to less certain long tail classes of insurance such as the various liability classes.

Before I detail the financial performance during the year, I would like to recap on a few major milestones reached and events that have occurred during the year.

First of all our largest business, Australian Personal Alliance returned to growth mode. The short tailed book which includes our core motor and home portfolios grew 1.9 per cent on the previous year.

During the year we also made significant investments in the UK motor market buying Hastings, a leading motor insurance broker with an associated Gibraltar based underwriter, Advantage.

And also we bought Equity Insurance Group, a leading motor insurance underwriter and broker.

Together, these assets in the UK make the company the third largest personalised insurance broker, the fifth largest motor insurance underwriter, and the largest motorbike underwriter in the UK.

I will address the performance of these businesses later in my presentation.

A major impact on our financial performance was two severe storms which hit Australia and the UK in the last month of the financial year. In Australia over the Queen's Birthday weekend, the Hunter Valley

received significant storm and rainfall resulting in a property damage that, in aggregate, makes it the fourth worst insurance catastrophe in Australian history. This follows Cyclone Larry in 2006, which rates as the sixth largest insurance catastrophe in Australian history.

Floods in the UK in June were the worst in modern history, surpassing even the great floods of 1947. Insurance Australia Group incurred more than \$500 million in gross claims from these events. The impact, net of reinsurance, was \$200 million to our profit. The fact that we've endured such events in consecutive years is causing the industry concern. There is clear evidence that our world is warming, and that this increased warming is increasing the frequency and ferocity of storms. However, even in the light of this warming, the probability of such events as we've modelled them should not be occurring at the frequency we have experienced over the past two years. These changes increase the importance of insurance for the community and the challenges ensuring the pricing reflects the risks being covered. The following slides summarise our financial performance since 2002, with the current year highlighted in blue. We grew gross written premium 15 per cent, as the chairman mentioned, during the 2007 financial year, exceeding our forecast of 12 to 14 per cent growth for that year. Since 2001, the company has grown at an average of 15 per cent per annum. Insurance profit has grown from \$210 million in 2001 to \$767 million in 2007, a compound growth rate slightly more than 20 per cent per annum.

Net profit after tax has grown from \$143 million in 2001 to \$552 million in 2007, a compound growth rate of more than 25 per cent per annum. Dividends have grown over the same period by a compound rate of nearly 20 per cent, excluding the special dividend last year. Controlling the ROE during the period from 2002 has averaged 14.2 per cent actually, and 17.1 per cent normalised. Our normalisations recalibrates the investment income element of the earnings with the ROE to include the expected investment market returns over the long term as well as adding back amortisation. It is fair to say our financial

performance for the year 2007, however, was very disappointing. I've already outlined the impacts of factors such as the storms. However, our performance was also affected by various market cycles and other challenges within our individual businesses. As a result, I will now provide an overview of the performance of each operating business. I'll start with our Australian operations, which at 30 June represented 74 per cent of the total company revenue. Our largest division, Australian Personal Insurance, which includes our well-known brands NRMA Insurance, SGIO and SGIC, returned a growth mode: the business's strong growth momentum, a solid margin, good customer satisfaction and high staff morale.

Our next business, Australian Commercial Insurance, which is branded CGU, had a very solid performance generating a margin above 18 per cent in terms of return on equity. However, this result masked very challenging market conditions where much of the profit comes from favourable runoff of our prior period reserves. The inherent margins on new business have been falling for over three years, and a number of individual insurance products are now trading at a loss. We signal that this situation is unsustainable and, as such, are repricing some parts of our business to adequately cover the risks, taking many of the cross-subsidies out of the current portfolios. Although this may reduce our market share in the short term, we believe it is the most appropriate and responsible management decision to take so that we generate an adequate return on equity over time.

Question: I have business with CGU. Actually, I am a shareholder, and I found them excellent. I was caught with this storm in New South Wales, and they came immediately, and they were polite and very good. There are some ways, though, I think you could lower your premiums and one of these – I think there's a lot of events that have been destroyed – the evidence has been destroyed by the government of New South Wales...

Michael Hawker: Excuse me, madam, can we just take your comment, which I greatly appreciate, and thank you very much for making very positive

comments about the service that is coming – can you allow me to finish my speech, and then we'll have an opportunity to take questions and comments.

Question: It's quite important... [inaudible]...

Michael Hawker: Okay, we'll take your questions and comments as we get to question time, thank you.

Question: It's very, very positive.

Michael Hawker: Thank you very much.

Finally, within our Australian operations the motor dealer business, Swann Insurance, is performing well, and our other business partnerships franchises are improving their performance.

Now, let me cross the Tasman and speak about our New Zealand operations. During the past year we have reaffirmed our market leadership position in New Zealand regaining market share. The New Zealand market place has seen a softening commercial market for the past three years. However, over the past four months, premiums have stabilised and started to increase to better reflect the underlying risks. Within the personal alliance market, continued above-average storm and adverse climatic activity have seen home policies insufficiently profitable despite significant premium increases during the past three years, and this is an industry situation. We have taken our Australian personal alliance pricing system into New Zealand which will enable us to do more granular pricing for risk and should lead to improved financial performance over time. The cost of this system has reduced current earnings, but we expect the costs to be more than recovered over time through the improved efficiency and better underwriting capability.

In New Zealand, we are also regionalising our call centres which is improving customer satisfaction and improving our staff morale. A number of new products have been introduced, and last year we generated a very healthy 10 per cent margin.

As I mentioned earlier, our strategy has been to expand the company internationally. During the past four years, a large part of our focus

has been in Asia. Within Asia, our target markets are Thailand, Malaysia, China and India. We are pleased with the progress we have made in Thailand and Malaysia, especially considering the lower level of economic growth in each of these markets over the past year. During the current financial year, we expect to increase our shareholding in AmAssurance in Malaysia from 30 to 49 per cent. We have not made as much progress, however, as we had anticipated in China and India, despite being very close to executing on two deals. In China, we are in advanced negotiations to purchase 24.9 per cent of China Pacific Insurance Company's General Insurance subsidiary, China Pacific Property Insurance. Unfortunately, a deal signed on 30 June last year with the group company's chairman, after 3½ years negotiations, was not ratified by all the relevant boards before the chairman was replaced. Other priorities, including the proposed IPO of the group, led to a change in circumstances that meant our deal could not proceed.

More recently, we were one of the short list of two bidders in a deal in India, but the final price was substantially higher than we offered. We remain committed to both China and India, and are currently evaluating several opportunities in those markets. We will ensure that our approach to these opportunities remains as disciplined as it has been in the past.

Finally, our newest market; the UK. In September last year we purchased Hastings and Advantage. Their acquisition was an important first step in establishing UK operations and facilitating our purchase of Equity Insurance Group. Within Hastings and Advantage, we have had some operational issues. These issues mean that we will not meet the hurdle rate of returns that we expected when we acquired this company. However, we are currently rectifying them.

Equity, our second and larger UK asset, continues to outperform the market as it has done for the past 27 years. It is one of the very few insurance businesses in the UK that has had 37 years of consecutive profit. The general view of the UK insurance industry in 2006 was that

the private motor market cycle was about to turn after three years of considerable weakness. However, the UK motor market further deteriorated in overall profitability during the year. This has reduced our expected returns for this financial year. According to a number of market commentators, the UK motor market business written in 2006 on average lost 11 cents for every \$1 of premium written when looked at it from an underwriting perspective.

Clearly these market conditions are unsustainable. In response to these conditions, we've done a number of things, including implemented significant premium increases on a number of our UK products; tightened our underwriting criteria; driven further productivity gains; and continued to expand our branch footprint where we get better returns. This is improving the quality of our business with some small increases in average premium. In our view, the cycle is bottoming in terms of pricing which should see the beginnings of improved profitability in this business.

At the time of purchasing Equity, we were targeting £22 million in after-tax synergies. Since then, we have upgraded our target by close to 14 per cent to £25 million, and we are on track to deliver these savings by the end of the current financial year.

In summary, therefore, we are dealing with two negative cycles: the Australian commercial insurance cycle and the UK private motor insurance market cycle. However, we have taken decisive action to manage the short-term issues and to position ourselves to return to more favourable conditions as these cycles turn, as they inevitably do. We are also dealing with increased frequency of weather events above our expected norms over the past two years.

Within the business, we have some very strong underlying fundamentals, which I want to take you through now. During the past four years, the engagement of our employees have risen from levels in the 40s to 61 per cent for Australia, as measured by Hewitts, an external agency. Many of our businesses are now in the best employer zone as measured by Hewitts. Our customer satisfaction is very high,

and we have high quality brand names within the company. Last week NZI in New Zealand was voted the insurance company of the year, winning all five categories, and recently NRMA Insurance was awarded a five-star rating for value by Cannex in New South Wales.

The capital strength of our company is of very high quality, with a very strong AA Standard & Poor's insurer financial strength rating on our key wholly owned insurance companies. So is the quality of our risk management systems. We are rated by Standard & Poor's as being one of only 5 per cent of insurers globally that have been awarded a top risk management rating of excellent.

We have recently qualified for inclusion in the Dow Jones Sustainability Index, and have improved our rating this year. In addition, we are one of only three Australian companies included in the 2007 global 100 most sustainable corporations in the world, as measured by Corporate Knights and Innovest Strategic Value Advisers at the World Economic Forum. Today we also publish our fourth annual sustainability report which can be viewed on our website at iag.com.au. We have also printed a small number of reports, some of which are available here today.

Finally, let me finish by reiterating our priorities for next year to ensure we successfully address our current challenges, and deliver quality returns for you, our shareholders. Our core priority is to drive even tighter focus on the execution of our strategy by continuing to build the momentum in our Australian personal insurance business; addressing the challenges in parts of our UK business; maintaining our pricing discipline through the challenging market cycles; ensuring tight cost management; and building our management capability.

With respect to the last point, we have made a number of senior management appointments recently, the most senior being the appointment of Mike Wilkins as chief operating officer of the company, as the chairman mentioned earlier. Over the past six years, the company has grown from around 6,000 people, mainly located in New South Wales, to more than 15,000 people located in 10 countries. This

requires a greater depth of management. Mike Green has proven management capability, and will add considerable strength to the organisation's capability. We have known each other for a number of years, and have similar management styles and operating philosophies. I'm delighted he accepted my offer to join the company, and look forward to working with him when he starts later this month. With respect to acquisitions, I am not expecting to make any further significant acquisitions until the benefits of expanding into the UK are realised.

Finally, with regard to our forecast for the rest of the financial year, we expect our gross written premium income will grow in the range of 7 to 9 per cent for the year, the insurance margin will be between 11 and 13 per cent, we will retain our strong capital discipline and maintain our dividend at 29.5 cents per share fully franked. These comments are unchanged from those we recently gave at our annual investment briefing two weeks ago. Thank you for your continued support during the year. We are confident we have a portfolio of quality assets that can deliver improved returns for the future. Thank you.

Question: Mr Chairman, can I raise a point of order?

James Strong: You can try to, yes.

Question: My point of order concerns the agenda items. Consider this: if your child came home from school with his report card, and demanded from his parents to be paid for his performance, what would you say? Isn't this exactly what you're doing with this meeting, in the way you've ordered this agenda? You are putting up ahead of the discussion – the important discussion, although I appreciate Mr Hawker's comments and your comments, Mr Chairman, about the performance of the IAG group. However, I think you would want to be seen to be fair in the deliberation of the performance of this company, especially by management and the board, and as corporate governance duty. So what I am asking you to consider is to move up the agenda item number 10 ahead of the items concerning remuneration of directors and management. Thank you.

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James Strong: Thank you. First of all, it is not a point of order, it is a point of view which you are entitled to express, by the way. We have been through this several times in recent years, and the reason for having this order, which is the order we've followed each year during the period that I've been Chairman, is that you end up if you put the general discussion first, you have a discussion about everything under the sun and then when you come to the specific things which must be dealt with as the business of this meeting, you go over them again. So in fact the most orderly and, I hope, the fastest way to do business is to go through each of the things that are necessary to be done and then to have an open period of discussion. It is arguable both ways; different companies use different ways of doing that, but I think the main thing here – and I doubt that anyone considers that they're going to be denied any opportunity to express their views on any of the points that you or others wish to raise. I note your comments, but I intend to proceed with the order as it is. Thank you very much.

Now, I have to go through some formalities here, so bear with me. This is boring, but I have to do it because it's required in the way in which the meeting must be conducted. There are 10 items of business before the company's Annual General Meeting this morning, and these are set out in the Notice of Meeting. Nine of these items require resolutions to be voted upon by you and all other shareholders. No Notice of Other Business has been validly or duly given by shareholders pursuant to the Corporations Act.

Security: shareholders, visitors and members of the public 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. In accordance with the provisions of the Corporations Act, I'll ensure that shareholders here today have a reasonable opportunity to ask questions about and to make comments on the management of the company, and to ask questions of the auditors' representative at today's meeting. The questions to the auditor are limited to the matters specified in the Corporations Act.

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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 Annual General Meeting, proper notice of that matter must be given to all shareholders so that they may decide whether to attend the meeting or to appoint a proxy in the light of the actual proposed business of the meeting.

Question: I would propose then –

James Strong: Can I just continue going through these formalities, if you don't mind?
Thank you.

Question: [Inaudible]...

James Strong: I will 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 at the relevant time 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 would also say that this is not really the time or place to air individual complaints, such as insurance claims or the like. If you do have these sorts of issues, which are obviously taken seriously, please raise them with the IAG Group staff at the information desk that has been set up in the foyer to assist you with these sorts of matters.

There are two microphones stationed in the auditorium. 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 holding a blue, pink or red voting card. Please show your card to the microphone attendant to establish that you are entitled to speak. If you are also a holder of re-set preference shares issued in June 2002, you are eligible to vote this holding separately in relation to resolution 9 only. In order to cast your vote in relation to these securities and speak to the resolution, you will

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need a pink voting card. Please note that, if you had appointed a proxy to vote for you at the meeting, and you have attended in person as well, your proxy's authority to speak and vote for you is suspended whilst you are present at this meeting. In other words, you can't have it both ways.

The chairman 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. Polls on all resolutions will be open prior to the discussion on the first resolution and will not be closed until the end of the meeting. This will enable those shareholders who do not wish to stay for the whole meeting to cast their votes on the items of business and leave the meeting early if they wish to do so. I will come back to the polls procedure in a moment.

Before we move to the business of the meeting, I confirm that the Minutes of the last Annual General Meeting of shareholders, held in this same venue on 15 November 2006, have been approved and signed by me as Chairman of that meeting in accordance with the provisions of section 251A of the Corporations Act which, no doubt, you all read daily. Copies of the Minutes are available to shareholders' inspection at the shareholder information desk in the foyer. There is also a formal Notice of Meeting which I am sure everyone has received. The notice convening this meeting has been sent to you as a shareholder. Shareholders have also had the opportunity to view the notice on the website. Unless there are any objections, I propose to proceed on the basis that notice is taken as having been read at the meeting. There being no objection, the Notice of Meeting is taken as having been read.

I will now explain the way in which the discussions and polls will be conducted before proceeding to the first item of business as set out in the Notice of Meeting. The polls: as I indicated a moment ago, for the convenience of shareholders, I will open the polls on all resolutions before this meeting prior to the discussion on resolutions 1 to 5, namely the election of directors. I then propose to invite discussion on

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resolutions 6 through to 9 before shareholders are given directions on how to complete their voting cards. Finally, I will move to the receipt and discussion of the company's financial statements, reports and any questions for the auditor also. Polls on all resolutions will close at the end of the meeting.

There have been a very large number of votes cast by proxy, and those shareholders here today are a small representation of just over 900,000 members on the company's register. I understand we have 363 shareholders here today, and it is important that you have this opportunity to attend. In addition, each share in the company carries the right to one vote, and a poll reflects those voting entitlements more fully. Accordingly I will not ask for a show of hands by direct that we move straight to a poll for each resolution. I believe that this is the fairest way to proceed, and it's the way we've used in all recent years. For the benefit of the Returning Officer, I now formally direct that the polls be conducted in the manner that I have just described.

For shareholders who are able to stay for the entire meeting, the Company Secretary will give directions as to the completion of voting cards at the conclusion of the discussion of resolution 9, but I am sure you have all worked that out anyway for yourselves. However, once the polls have opened, any shareholders who wish to vote and leave the meeting early may place their voting cards in the ballot boxes on the way out. If departing shareholders require assistance with their voting cards, please ask the Returning Officer staff. I do encourage shareholders to stay for the duration of the meeting and to complete their voting cards at the relevant time if they are able to stay. Voting cards for all resolutions will be collected by the Returning Officer staff at the conclusion of the debate on all resolutions. So as not to hold up the meeting, the collection of voting cards will continue throughout the discussion of the company's financial statements and reports.

I consider that it is appropriate that shareholders know the state of the proxies on a resolution following the discussion of that particular resolution, but before shareholders are asked to complete their voting

cards. The Returning Officer, Mr Will [Mongovius], will give me a written report as to the results of the proxy voting instructions received for each item of business, and I have accepted his recommendations as to the admission and rejection of proxies and make rulings accordingly.

However, due to the many permutations which potentially arise from proxy votes received, and because there may be shareholders in the audits who have revoked that previous proxy and are now voting in person, these results are preliminary only. The preliminary results of the proxies for resolutions 1 to 5 will be displayed on the screen at the end of the discussion on these resolutions. Similarly the preliminary result on the proxies for resolutions 6 to 9 will be displayed immediately following the discussion on these resolutions. In each case, the information will be displayed before shareholders are asked to fill in the relevant parts of their voting cards. Once the polls have been closed and the counting completed, a report on the results will be announced to the Australian Securities Exchange as soon as available. It will then be placed on the company's website and at the company's registered office on or by Wednesday 14 November.

I now direct that the polls be opened on resolutions 1 to 5, and move to the first item of business before the meeting. Resolutions 1 to 5: Election of directors. These resolutions are set out in the Notice of Meeting and relate to the re-election of two directors and the election of three directors to the board. I now propose to proceed to a discussion on each of these resolutions, being resolutions in relation to the election of directors to the board of this company. These items of business will be discussed in succession before the meeting proceeds to view the proxy results and to complete voting cards.

By now you will have had an opportunity to read the explanatory notes that accompany the Notice of Meeting. These give a brief biography of each of the directors. Whilst no other person has been nominated for election as a director, all candidates must still receive more votes in favour than against from shareholders voting in person, by corporate

representative or by proxy in order to be elected. The first resolution is the re-election as a director of Ms Yasmin Allen. The text of resolution 1 is set out in the Notice of Meeting. I'd now like to invite Ms Allen to address the meeting.

Yasmin Allen: Thank you, Mr Chairman. Good morning, ladies and gentlemen. Thank you for giving me the opportunity to address your meeting. I'm proud to have spent the past three years working on behalf of you, the shareholder, at this impressive company. I am aligned with the high standards set by IAG internally, it's ethics, code of conduct and risk management, and if re-elected today, I will continue to support and encourage such high standards. I'm also proud of this company's non-financial contribution to the community, setting high standards for its treatment of staff, the community and customers.

IAG faces a challenging operating environment. Your company is well equipped to deal with these challenges. Staff are high calibre and reinvigorated. IAG is well capitalised, AA-rated and prudently reserved. Challenges and change also represent opportunity. I can assure you that this board is focused on shareholder returns and is working hard alongside management to make the most of these opportunities and to improve earnings.

My background and experience enable me to contribute to this process, particularly in the areas of risk, strategy and financial analysis. I have spent a significant part of my career advising institutional shareholders on their investments, both here and overseas. So I have a deep understanding of shareholder requirements. I believe I add to the breadth of skills on this high-calibre board.

IAG invests in its people, including the board. The board embarks on regular updates to keep it current in this evolving market place – in insurance, business trends and the regulatory environment globally. This enables better informed debate, independent evaluation and robust decision making. I would like to take this opportunity to thank the executives and management who give their time to conduct these

sessions for the board. It is an investment well made, and I hope to be able to continue to repay that investment through stewardship of this company for shareholders.

Until recently, I served on the Risk Management Committee of the board, an important area for a company that sells risk management products. IAG has been recognised externally for our risk processes and governance standards. In September this year, I became Chair of the Audit Committee at IAG. The Audit Committee is critical for the integrity of financial reporting, and therefore investor confidence. I will ensure that IAG remains at the forefront in transparency and accountability in this area.

I have the time to fulfil my duties as a non-executive director of a company of this complexity and size, and I have the desire to continue to serve on this board. If you re-elect me today, I look forward to continuing to work on your behalf during the next three years for the future of IAG. Thank you.

James Strong: Does anyone wish to speak to this resolution?

Question: I like this lady!

James Strong: Good, thank you for that endorsement! We're quite fond of her, too, as it turns out. That concludes the discussion on resolution 1. No, there is a gentleman here – just slow out of the starter's box.

Question: (G. Edwards) Mr Chairman, my comments are more a point of order rather than to Ms Allen in particular, but it relates to all the resolutions. I would like to know why, as in so many other company meetings I've been to this year, a rather disturbing trend that I object to: you will not allow a show of hands on each resolution. Some of the resolutions are non-contentious. I don't see any great contention for Ms Allen, especially after that nice speech. But other resolutions, you must be fully aware that there's a rise in non-executive directors' pay and a couple of others that could be the target of quite a bit of shareholder sentiment. It is part of the Business Council of Australia's meetings procedure recommendations and I notice our CEO is also a member of the BCA and it does say that unless there is a clearly pre-

announced reason to go straight to a poll and ignore a show of hands, that a show of hands first is desirable. Then the polls of course will reflect all the mass of proxies that were lodged two days ago and the proxy givers of those proxies have not had the benefit of hearing the ebb and flow of argument that will undoubtedly come throughout the next few resolutions.

What particular reason would you have for going to a poll and basically neutering a lot of the sentiment that the shareholders here, all 363 that have bothered to turn up and take the time to listen to your speeches and the other speeches that will undoubtedly flow throughout the afternoon and the morning. Why would you neuter shareholder sentiment in return to whatever we hear from the dais there and would you reverse your ruling in the interests of greater flow of information to and fro?

James Strong: Thank you. I'm getting a running commentary here. The points that you've raised are points that have been discussed many times by many companies. The BCA papers you've put out are a discussion paper and their own views. I don't agree with everything that the BCA says and they are not mandatory on anyway.

Our reasons are this: that everybody gets a chance to express their point of view at this meeting. Nobody is inhibited from doing that but we have – everybody as I said earlier in my presentation, everybody who is a shareholder in this company is entitled to a vote and so all of the votes are going to be counted at the same time with the same representation.

So it has been decided by this company and followed at every meeting we've had in recent years that we will not waste time; we will go straight to the full vote by all shareholders of the company on each motion as it's treated and that is my ruling.

Question: Now Mr Chairman, with respect you haven't quite hit on my point. I take the point. I know all the votes will be duly counted and I accept that but it is the shareholder response to matters emanating from the dais there, in particular some contentious resolutions are in front of us.

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I think it's like running behind the curtains for cover when there are one or two contentious resolutions. Any board that takes this straight to a poll view I think has the impression on shareholders who have taken the time to come here today to listen to the ebb and flow of argument which the proxy givers haven't got the benefit of by definition to get a response back to the board of how we feel, at least this small band of shareholders, how we feel about particular resolutions.

It's a great flow of information and indeed...

James Strong: Can I cut across...

Question: ...in the recent [inaudible] meeting the chairman actually...

James Strong: ...you're repeating what you said before.

Question: ...reversed his decision and I would ask you to similarly reverse your decision in the aim of getting a greater flow of shareholder sentiment back to the board, as much as from the board to us here today.

James Strong: Thank you very much for your views and we intend to follow the same procedure because it is the most efficient way of everybody registering their vote and it's not a point of order by the way so...

Question: (J Nagy) I'm sorry... I reluctantly speak. I'm going to make some comments. I wish the board and management do not take these personally to some extent. I was hoping to make a comment generally about the board but the way it's going...

James Strong: Well look Joe, I know that you've got some views. I intend to proceed according to the agenda for this meeting because there are three hundred and something people here and there are a lot of people on the webcast. We've told everyone that's how the meeting will be conducted. It's exactly the same as we've conducted every other meeting and if you want to make general comments you can make them later on when there's provision for general comments. You are not going to change the order of the meeting by another means.

Question: I'm not trying to change it.

James Strong: I don't intend to hear you any further on this point.

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Question: I haven't finished. I just made a comment to say I regret having to say this. But the comment was made by Ms Allen about risk and I'm saying what I want to inform this audience is that I think that IAG has not managed its risk well.

You've heard Mr Hawker talk about the problems you've had in India or rather in Asia and also in the UK. Now part of the problem which concerns me greatly, is you made the comment Mr Chairman or Mr Hawker did, about doubling your assets every five years. A 20 per cent growth rate or something like this, whatever it is, that's a high growth. I would like to think that the board would look at that critically because that's where mistakes come from. Mistakes come from that area...

James Strong: You can make these comments later on. I intend to follow the procedure of the meeting so if you don't stand down now I'll have that microphone turned off. Right? There'll be plenty of time for those comments later.

Can we now go to resolution 2 if there are no more comments on resolution 1? Can you go to a microphone please?

Question: I just really want to ask a general question in relation to this election of directors and that is why don't you put the age of the person – most companies that I've seen do, there's a few that don't – now why don't you put the age of the person? I mean the point is that the person who has just spoken – I mean there's no worry there but if you're trying to do this without coming to – and you can't hear the people speak, bearing in mind they're there for another three years and possibly another six years, it would be nice to know what age they are. Thank you.

Male Speaker: Ms Allen is 43. It's in the book.

James Strong: Page 43. They are on each person's name in the Annual Report and I'm not going to take offence as to whether you think some of us are senile. We'll let that pass. You may be right, for doing this sort of job. Okay can we go to resolution 2?

This is the re-election of Mr Brian Schwartz. Resolution 2 is that Mr Brian Schwartz be re-elected as a director. This is a re-election one

again. The text to resolution 2 is set out in the Notice of Meeting. I'd like to invite Mr Schwartz to now address the meeting.

Brian Schwartz: Thank you James and good morning ladies and gentlemen. In thinking about what I might say this morning it struck me that when I stood here before you some three years ago I had just left Ernst & Young after some 26 years and I was commencing the next stage of my career.

In discussions with my then new chairman, he strongly encouraged or even required that in addition to my full-time role as CEO of Investec, I should take on two non-executive roles: one in a commercial company such as this one and the other in a not for profit.

I largely listen to him although I must confess that I have two not for profit directorships. His logic was obvious and that was that focussing on only one organisation in an executive role led to the danger that one became too narrow in one's focus.

Sitting here today three years later I've no doubt that he was right. I must confess that at the time I wasn't sure. It was a new job – two new jobs actually and I had a lot to learn. But what I think it has done is made me not just a better chief executive but also a better non-executive director.

As for time, and people ask me where that comes from, the old that if you want something done ask a busy person is very true. I do work long hours but not to excess and I enjoy all that I do.

After three years in the role I'm now much better educated in insurance matters than I was at the start and I feel that my most productive time is in fact ahead of me.

I've served on the Risk Committee and I'm currently on the Audit Committee and I chair the Nominations, Remuneration and Sustainability Committee, a committee that some three years ago when I did stand here, I said was an area of particular interest in people and culture that is the focus.

This is not an easy industry or indeed a company to grasp but having now done so I look very much forward to being involved in the growth of our outstanding company.

The last few years have been challenging and no doubt there is still much to do but the fundamentals are sound and I have confidence in management and in this very open and proactive board. I do have the time and I certainly have the energy to continue to make a contribution and with your support I look forward to a continuing role in the future of IAG. Thank you.

James Strong: Does anyone wish to speak in relation to Mr Schwartz's re-election?

Question: (M. Parry) Good morning Chairman. I'm Michael Parry. I hold proxies in respect of some 2.5 million shares held by members of Australian Shareholders Association and others.

I've listened carefully to Mr Schwartz's comments and whilst I acknowledge the sense of the case you have made in many respects I have to report to you here that the majority of people I represent are very firmly against the concept of a full-time executive holding non-executive director positions on unrelated companies.

Accordingly, notwithstanding as I said Mr Schwartz's comments and his undoubted qualifications, I will be voting those proxies – the open proxies against Mr Schwartz's election and I would encourage you to consider having a team of non-executive directors, all of whom are free of outside executive commitments so that they can devote the time to your company as and when it proves necessary. Thank you Chairman.

James Strong: Thank you Mr Parry. I can understand. You did notify us in your usual polite fashion that that was your point of view and we understand that's...

Question: I believe I did Chairman. I doesn't seem to have been taken on board though.

James Strong: The only comment I'd like to offer is that I can assure you as chairman of this company that Mr Schwartz has never been missing in action or not available at any time that he's been needed and I don't think I

should comment any further than that. It's a point of view where your association has that perspective and we respect that.

Question:

(G. Edwards) Mr Chairman, I'll briefly support the previous speaker because I would just like to know one thing: how did the board assess that the full-time executive role that Mr Schwartz has - and I do understand the need for sort of cross fertilisation of roles. That's why we have non-executive directors which are not full-time jobs and several non-executive directorships are beneficial. How much is too much is another matter.

But a full-time executive job, like if our CEO Mr Hawker were to accept a couple of non-executive directorships elsewhere, given that IAG has been going through a rough patch in the last year, I would be rather concerned that there are still only 24 hours in the day, as much for Mr Hawker and yourself and for myself as all the rest of us here.

How did the board exactly determine that a full-time executive role by Mr Schwartz left him time for a fairly major directorship in one of our major top ASX 200 companies like IAG?

James Strong:

The method we followed, Mr Giles Edwards, was to outline to him what the requirements are to properly fulfil his duties as a director of this company and then ask him if he could devote that time. He assured us that he could and he always has, in the last three years, met those obligations.

Okay, I'd now like to go to resolution 3 which is the election of a director of Mr Phillip Colebatch. The text is set out in the Notion of Motion. I'd like to invite Mr Colebatch also to address the meeting.
Phillip?

Phillip Colebatch:

Thank you James and good morning ladies and gentlemen. In reflecting on what remarks I might make this morning I thought that perhaps what might be more interesting to you would be to put a little colour around what you can already read in the Annual Report and other documentations where sort of the bare facts of one's career and history are set out so that you could perhaps gauge a little more about the person who is standing for election here.

First I should say that despite my accent I'm Australian. I was born in Adelaide and grew up there. My wife is English and that does lead to some tensions at certain times of the year when there are major sporting events. We've learnt not to dwell on the result. At certain times I have more interest in the weather and she has more interest in the result and other times she has more interest in the weather and I have more interest in the result.

But that tends to be the way it works. But my three young children, I have to say I've exercised quite an amount of influence, and they all support Australia.

As I said I grew up in Adelaide, left there in my early twenties always with the intention of returning and it never quite worked out that way. In my career I've worked in Boston, New York, Zurich, Hong Kong and London. I've been the CFO of a major global universal bank and the CEO of a global asset management company.

That's brought all of the obvious experience and background in working in different cultures and managing globally spread and diverse businesses and as your company expands internationally I expect that that's one of the elements of my background which will prove useful in this board going forward.

I've enjoyed the opportunity to be on the board and to work with my fellow directors only recently over the last year or so and would certainly welcome the opportunity to continue that role should you so choose.

In doing so I expect that the background that I've had in finance, risk management and international strategy are the two things that I'm going to be able to bring to bear onto this board and as the company expands its international ambitions I would expect those ingredients to be some of the critical components.

So with that further background to support my candidature I'd like to thank you for the consideration that you'll be giving.

James Strong: Thanks Phillip. Would anyone like to speak to this resolution?

So that concludes the discussion of resolution 3. Resolution 4 is election as a director of Mr Hugh Fletcher. I'd now ask Mr Fletcher to address the meeting also.

Hugh Fletcher: Thank you Chairman. Ten years ago I retired as an executive of Fletchers, a Top 100 ASX listed company. During the previous 20 years I alternated as deputy chief executive and chief executive officer. Over those 20 years the company had a total shareholder return of 20 per cent per annum compounded after tax.

There was though considerable volatility from year to year reflecting both highly volatile industry cycles and variable outcomes from management and board decisions.

During these years we grappled with the need to change the business models for our domestic businesses and to grow internationally in both hemispheres. Some of our decisions and execution we got right and some wrong; fortunately more right than wrong.

You're probably thinking what is the relevance of this? It is simply that having been a chief executive who has grappled with the same generic issues facing IAG today I would hope I could bring some insights from those experiences, both good and bad, to the IAG board table.

One of my first non-executive board appointments 10 years ago was as chairman of the Australian and New Zealand subsidiaries of the UK insurance company CGU, later Aviva. When IAG acquired the businesses I became non-executive director of IAG New Zealand and recently as chairman. IAG New Zealand is, as Mike discussed earlier, about 12 per cent of IAG's global revenues and is New Zealand's largest general insurer.

NZI is a broker based insurer of predominantly small and medium sized businesses. It has been a consistent creator of shareholder value.

State Insurance is a direct personal lines business which IAG has been steadily invigorating. I have no doubt that this heavy investment of cost of near term profitability will deliver good value for shareholders in the years to come.

My appointment to this board mirrors that of Phillip's, reflecting the judgment that the non-executive chairs of IAG's offshore subsidiary boards would add to the overall balance of the parent board.

Personally I am delighted to have received that invitation and ask for your support for my reappointment. Thank you.

James Strong: Does anyone wish to speak to resolution 4?

Question: (Giles Edwards) At the risk of repeating a similar point that I made in relation to Mr Schwartz, I only repeat it because the matter has indeed repeated itself about over commitment of Mr Fletcher of a different sort. This time I note on the Notice of Meeting and the explanatory notes that he has five other directorships and two other non-commercial commitments of chairmanship and chancellorship.

Admittedly one of the commercial directorships is IAG New Zealand so that's probably just half a directorship given that it's a sister company.

But again I put the point that I still cannot quite understand how the board could really satisfy itself, given that we have some problems besetting IAG recently, that Mr Fletcher for all his undoubted talent and there's no animosity in this.

He undoubtedly has the commercial nous and talent but there is still only 24 hours in a day and just to say to a potential director, do you have the time, yes, I think is taking an awful lot on trust when five directorships of some fairly major entities plus the non-commercial chairmanships and entities that Mr Fletcher is involved in. How does that really leave him time for a full on directorship of a company like IAG which is currently experiencing a few problems? I still can't understand that and to have two directors out of the eight similarly overcommitted in different areas I find a little potentially worrying.

James Strong: Well as you have repeated the same concerns I'll repeat the same reply to you Mr Giles Edwards. Are there any other speakers? Over on number two.

Question: (Sadat) Mr Chairman, I wish to address to the gentleman that spoke earlier. We trust James Strong and Michael Hawker. As far as you're concerned these people are suitable to do something for us.

I think this is a waste of time for everybody here to question your wisdom. I mean if we don't trust you that's a different story; let us get rid of you and then these people go with you.

I mean obviously you're not going to choose anybody and put it there in front of us if they're not going to be helpful to you and helpful to us. Please let us not waste any time.

James Strong: Thank you for the comments. I think most people appreciate that the purpose of this is so that those people who the board has invited to become board members are presented in front of you and you hear them speak and you know their background. I think it's a process that's worth doing but I hope that it's one that we don't spend time on repeating things too often. So thank you for those comments but I think it is part of the democratic process and we're nearing the end of it, I think.

So any other speakers on resolution 4 or can I go to resolution 5 which is that Miss Anna Hynes be elected as a director and that's as set out in the text of resolution 5 and I'll ask Miss Hynes to address the meeting.

Anna Hynes: Thank you James and good morning everyone and I'll certainly keep it short.

As a new director I thought I'd just spend a couple of minutes telling you a little bit about myself. I was appointed to the board of IAG just two months ago. Prior to that appointment I was a non-executive director of Promina Group Limited.

As many of you would be aware, Promina was an insurer with a very strong track record that was recently taken over by Suncorp Metway. I believe my two and a half years on Promina's board provides me with highly relevant experience for IAG. In addition to Promina I was also on the board of Country Road Limited until recently.

Prior to my life as a company director I had extensive executive experience. I have about 20 years' experience in general management and marketing in financial services and consumer products companies.

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I spent most of my executive career at American Express where I held a number of senior positions, most recently the company head for New Zealand. During that time I built up particular expertise in direct consumer businesses.

I also learned about reinvigorating a long established business by listening to your customers, launching new and innovative products and revitalising an old but trusted brand. Again I think that experience will serve me well at IAG.

I also have a lot of international experience. I am an Australian but spent 12 years living and working in the United Kingdom, Asia, United States and New Zealand. I therefore understand IAG's challenges both at home and abroad.

On the education front, I have an MBA from Harvard Business School as well as a Bachelor of Science Degree from the University of New South Wales. I'm also a graduate of the Australian Institute of Company Directors.

I look forward to working with the rest of the board and the management team to improve the performance of IAG, drive greater shareholder value and help build a company that we can all be truly proud of. Thank you.

James Strong: Does anyone wish to speak to this resolution? Yes Jack? You've shown remarkable restraint today Jack.

Question: (J. Tilburn) Yes, well I was sitting down, Mr James Strong, chairman of IAG Limited, until I became bloody cold and I thought I'd get up. The muscles of nearly 81 years (my birthday is on Thursday, 81), demands physical activity.

James Strong: Happy birthday for Thursday Jack.

Question: I'm still going strong. Ladies and gentlemen, it's not too flippant to say that for Miss Anna Hynes, as my studious friend Mr Edwards has pointed out, she does not have as we can read five other directorships. I think therefore I will support her on the proxy voting procedure. But it's very good that this lady has come along to join the board and she's been selected by the board but she certainly gets a very good

tick off me and a good gold medal award from me. She does not have five other directorships to be immersed with. Thank you.

James Strong: Thanks Jack. I hope the walk warmed you up Jack and look forward to seeing you later in the week.

So that concludes the discussion of resolution 5. As you have seen in the Notice of Meeting, the directors recommend that you vote in favour of each of these. Now seeing there have been some concerns expressed here this morning, I'd just like to add an extra comment. Like most companies, as far as I know, we are very aware of the ASX best practice guides for companies. As you know, these have been put out in recent years to try and encourage generally higher standards of governance.

Part of that is that when we approach somebody to become a director we actually, after discussion with them, ask them to sign a statement of commitment which is a written commitment that they do have sufficient time to carry out their duties as a director.

We also, of course, ask them whether they have any conflicts of interest against this company and it is a procedure that's followed in the interests of shareholders to make sure that we don't appoint people who are inappropriate or don't have time to do the job.

I regard – from the chairman's point of view, if you ask me what are the most important things we do as a board, the first is to appoint the chief executive. It is the most critical appointment of all and then obviously to work with that chief executive around the rest of the management group, their selection and careers.

But it is also, from a chairman's point of view and the other members of the board, very important that we have high quality people on the board. I would put it to you that this now, on the basis of the candidates you have in front of you, is a very high quality board with a lot of experience in finance and insurance and from different countries around the world and that's been our aim.

If you look back now – this is '07, if I look back to '01 when I started we have gradually but very clearly changed the character of the board.

I hope those comments go to giving some better explanation towards Mr Giles Edwards and others. It is something that is taken very seriously and it's important to the future of the company.

For the resolutions one to five I'd now like to display on the screen a summary of the preliminary proxy results, and they'll come through one after the other.

Resolution one was Yasmin Allen, two is Brian Schwartz, three is Phillip Colebatch, four is Hugh Fletcher and five is Anna Hynes.

As stated earlier in the meeting instructions will be given regarding the completion of voting cards at the end of the debate on all resolutions. But if you'd like to fill out your voting cards from one to five, feel free to do so now.

The next item is resolution six, which is to adopt the remuneration report. This resolution is put to the meeting in according with the Corporations Act. The resolution is that the company's remuneration report for the financial year ended 30 June be adopted. The full text of the resolution is set out in the notice of meeting. Under the Corporations Act this vote is advisory only, meaning the result of the resolution will not bind the directors of the company. The remuneration report is set out on pages 40-58 of our annual report, and it provides extensive disclosure of director and executive remuneration. The directors recommend that shareholders vote in favour of the resolution, and can I now ask those who wish to speak to resolution six to make way to the microphone, thank you.

Question:

(J. Nagy) I hope this isn't becoming boring. My concern is there seems to be a break between performance and pay. I'm going to make this completely clear to you and to members of the public here, that is any of us worked for you and we performed badly, we'd be out of a job or we'd have something done to our salaries. My concern is the timing of this increase with IAG's performance. Again it's got nothing personal to do with any individuals that are

concerned here, but it does have something to do with this, I think, important position.

I think the other the other point I want to make clear to you, Mr Chairman, is in all the reading of the annual report and your comments and Mr Hawker's report, and the rest of the directors, I haven't heard a word mentioned about that lovely phrase called 'shareholders' value'. I would like to think that all of you up there are committed to improving shareholders' value but I've heard nothing about it. I read the numbers on it and shareholders' value has declined and has not improved. It's on this basis and no other basis, that I would vote against the remuneration for not only the managers, but also for the directors, because you're breaking that very important link. Thank you.

[Heckler – inaudible]

Question: (M. Parry, ASA) Thank you, Chairman. I noted your remarks earlier about the adoption of twin hurdles for long term incentives and I welcome those. I think those will serve to improve alignment between executive pay and the returns to shareholders. However, I do have some concerns about the details revealed in your remuneration report, and it's a well written report, it must be extraordinarily tedious to put together. There a bit of a danger that we sort of lose the sense of it in the wealth of detail but that's not your fault, I know you're required to produce all that information.

However, in looking at the details of the individual remuneration of senior executives, it's quite clear that all of them have enjoyed pretty substantial increases in remuneration in 2007 over 2006; not least in base pay. I note also your comment that you will be increasing the proportion of total pay which is subject to performance. I simply find the levels of increases in 2007 slightly at odds with IAG performance. I think we need retail shareholders particularly, need some explanation of that. It does look out of line in a year of less, in your words, disappointing performance to have such substantial increases.

Now I'm quite sure you will tell us that there are time lags and so on involved in that, but I think we need to understand so that we don't have to really get to grips with the Black Shoals process and Monte Carlo systems and so on. I don't think retail shareholders really want to get into that. But we do need some simple explanation of why the increases in your senior executives' remuneration is out of line with returns to the shareholders. Thank you.

James Strong: It's a very interesting point and no surprise that you've picked up on that. I'll give you as much detail as I can so that we can try to get over the general point. I don't want to go into great detail about each individual but to give you examples.

Out of the senior management Justin Breheny, Nick Hawkins, Jacki Johnson, Christine McLoughlin, Neil Utley and Jan Van Der Schalk were all in different roles for the whole of 2007 than they were in for 2006. Another example is David Issa who, if you look at it on a straight arithmetic basis, has a 25 per cent base salary increase. That's the sort of thing that you're getting at.

During this period he took over responsibility for all of our personal insurance business throughout the company. So that has been right across the group a big change around in what people were responsible for in 2007 compared to what they were doing for part of 2006.

I mean we're quite happy to sit down with you and go through that in more detail if you wanted to, but you are dead right, they are not ordinary increases across most but not all of the senior management, because of the reorganisation, and we also had some changes in appointments following the unhappy experience we had with the care and repair episode, which you will remember.

Question: (M. Parry, ASA) Thank you, Chairman, that's quite informative. May I just say finally, it's a pity that that sort of information can't be included in the remuneration report. At the risk of making it even longer, I think that's perhaps more valuable to retail shareholders to hear that than to go through the reams and reams of tables that legislation requires that you produce. And thank you.

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James Strong: Can we take that point on board, because comments that are made like that from a common sense basis are often very helpful in thinking about how to do things next time. So thank you for the comment.

Question: I had a swim at Dee Why beach yesterday to get ready physically for this meeting. I have a lot more to say, of course, on the financial reporting sector.

Ladies and gentlemen, it's very difficult I think to read 15 pages of the remuneration report at night time when there's far, far too much colouring of yellow, Mr Glenn Revell the secretary, and the page numbers are not big enough. When you have white printing on yellow it's not seeable and readable.

Ladies and gentlemen, just a few comments about it. I suppose they're all working very well. Mr Strong would tell us that they're working like me, 25/8, per week – I doubt it, they're nine to five people but I suppose they're doing their best. And I was very pleased to hear the previous man bring up shareholder values which not one of the five directors brought up I don't think, at all. So that's a couple of criticisms, a couple of comments.

Now, looking at the remuneration for the 12 top executives, ladies and gentlemen, I only just pick up on Mr Michael Hawker. He gets \$3.5 million a year, which works out at \$70,000 a week. So we're looking at a man there, running IAG, who gets \$70,000 per week in case you didn't do a couple of calculations. That's on page 46.

Now on page 54 we have the remuneration details for our eight company directors. Now, ladies and gentlemen, you'll go away and think of this; Mr Strong gets \$612,000 per year – I forgot to work it out per week. Ms Allen \$182,000 for her stint on the board. Mr Ashbury's departed, he got \$201,000. Mr Colebatch has got \$120,00; Mr Cousins, that being against the pulp mill in Tasmania, got \$159,000. And Mr Hamilton, \$202,000; Mr Ross \$195,000; and Mr Schwartz \$197,000 for his stint on the board.

Now the total remuneration, ladies and gentlemen, for those eight company directors, is nearly two million. It works out at \$36,000 per

week. So that these directors here of ours, on this IAG board, are getting and being paid \$36,000 per week. Makes you think. Thank you.

Question: (N. McCarthy) Mr Chairman, members. We have discussed shareholder value and all the things I've heard seem to be fairly positive. But when I look at the figures I get quite worried. For example, I see that people that bought shares for \$6.01 in June 2005 have lost 26 per cent of their money.

Heckler: Here, here.

Question: I bought shares at \$5.50 in the January 2007 issue and I've lost 18.5 per cent of that in 10 months. Now if you look at the detail in the annual report you'll see that the earnings per share is down from 37.87 cents in 2004, that's three years ago, to 32.79 cents. That's a drop of 15 per cent. The net tangible asset backing per share is down from 96 cents in 2004 to 90 cents at 30 June 2007 despite a cash issue of \$5.50 in January this year. So those people that put in \$5.50, I don't know whether the other \$4.60 went, but it sure is an intangible asset backing.

The normalised net profit is down from \$601 million in 2005 to \$467 million in 2007. That's a drop of 22.3 per cent. The share price drop I've already covered, that's dropped 26 per cent from 2005.

Now we've taken over a number of companies but the written premiums at \$7.3 million in 2007 and despite acquisitions, these have only increased by approximately 4 per cent on the 6.4 million in 2004, which is barely above inflation. So I wonder what sort of performance we're getting from all these superior people.

I read just last week that at the Telstra annual general meeting, what really took my attention was that the Telstra directors, and bear in mind that Telstra's capitalisation is seven and a half times bigger than IAGs, their directors only got a million. And the directors of IAG got 1.8 million. And what's more, the shareholders of Telstra voted down any increase and the directors of IAG now want their remuneration to be increased to 2.75 million. That's an increase of 81.5 per cent in two

years. I hope the directors are proud of what they've done because I don't see anything to be pleased with.

James Strong: Thanks for your comments, Mr McCarthy, I don't know what the Telstra directors are paid, so I can't comment about that. They had a pretty interesting meeting though, I understand.

I think, Mr McCarthy, your comments are taken on the chin in the sense that I hope you are aware that in my opening remarks I indicated that the board regarded the results as disappointing, the same as you do, and that Mr Hawker said the same in his remarks. But he did then also go on to try to explain what we're trying to do about it against these – as you know there are cycles in insurance markets, there are events that happen and we've not shied away from explaining or mentioning any of those. Our job is to get on and do something about it in every area where it needs something done to improve our performance to the extent that we can. We can't turn around markets that are into a discounting phase, and that's how markets do work. So you do have volatility in this industry, it is a volatile industry, and I know that that does affect shareholders adversely, because I'm a substantial shareholder in this company as well and so it's affected me the same as it has you.

We take your criticism because it hasn't been a good year, and we've acknowledged that. But I hope also that you see that we're saying, well here's our very close analysis of what needs to be done and we're trying to get on with it to build our performance back and to improve the outlook for shareholders and the shareholder value over a period of time. So thanks for your comments.

By the way, can I just say that we're running a little bit over here, some comments are being made about directors fees which is the next item on the agenda, and some about the executives remuneration. But it doesn't matter because we've got to cover both of them in any case, so thanks.

Question: One further point on this, and again my apologies to Mr Hawker, and I mean this sincerely. If you look at the break up of his salary – by the

way, I must also complement the board on this and the company. You have put a lot of detail in there and I think that's interesting, because not all companies have put this much detail into it, and this does of course, it raises people like me to criticise the board on the numbers. Anyway, bear with me.

I'd like to ask this question, are you aware that corporate and administrative expenses have arisen 71 per cent from 2.65 to 4.54. At the same time Mr Hawker received an increase in his short term incentives from 632,000 to 722,000. I'm just amazed at how you could put that in there like that at the same time that those expenses go up, and of course we've already talked about how the profits have dropped. Short term incentives, how does this tie in to the annual report for the consumers and the retailers here. I'm a corporate person, I look at financials as my background, as my activity. A lot of people here don't understand this, so maybe in future when you do this, you can tie some of the stuff in here, like the numbers, into how these people get it because I'm sure he's worked hard for it but the performance shows just the opposite, it hasn't worked out. Thank you.

James Strong: Thanks. Michael will just make a comment about those expenses.

Michael Hawker: Mr Nagy, thanks for the comment. The major reason why the corporate expenses went up was through the acquisitions we made in the UK, so we've got a significantly larger business and that accounts for the expenses. If you look at the expense base in our Australia and New Zealand operations over the last four years they've kept, I think, an overall growth rate of 1 per cent for that entire time. So we absorbed the inflation impacts, so the expense base of the core Australia and New Zealand business has been kept very modest.

Question: That's all the reason why that kind of information could come out. I know it's going to make your annual report that thick, but thank you.

James Strong: It's a continual struggle as to what you put in there that has relevance in people's minds and what explains things. Anyway, thanks for the comment because what you're saying is you're interested in linkages.

Any other comments about the remuneration report before we go on to the others to do with directors' fees?

Question:

(S. Andrew) Good morning, Mr Chairman. I'll only make a short statement in reference to the dividend statement and in reference to the earnings per share. I notice in the middle there that the shareholders would be aware that there is a certain gentleman who is held in the custody of Her Majesty's establishments, and likewise he's now been reported to be sipping caffe lattes on Bondi Beach, and he's after some investment portfolios.

I notice here at the bottom, and I'm referring to HIH. Can the board tell me how long and how much have we, the shareholders, have got to pay for HIH in reference to .6 of percent of each share. And the shareholders would like to know how long is the board going to put up with this are they putting some strategies to curtail this? We are talking about a pier of risk management. Thank you, Mr Chairman.

James Strong:

Thanks. Mr Andrew, I understand the government undertook a review and announced in 2005 that there would be no changes to the insurance – what's the called the Insurance Protection Tax following that review in 2005. The insurance industry has discussed this with the New South Wales treasurer a number of times since the review, and there continues to be no change by the New South Wales government.

However, the New South Wales treasurer has indicated that if there was a federal government policy holder protection scheme introduced – this sounds like a bit of buck passing, doesn't it – as recommended by the HIH Royal Commission, the IMF and the Council of Financial Regulators, there would not be a need for a New South Wales IPT, that's Insurance Protection Tax.

The insurance industry is currently in vigorous discussions with the federal treasurer regarding a proposal from the Council of Financial Regulators for a policy holder protection scheme and submissions close in mid-February 2007. So that's the latest on that.

Now what we'll do is to conclude the discussion on resolution six, and we'll display the preliminary results of the proxy instructions for resolution six. This is on the adoption of the remuneration report. We'll now move to resolution seven, which has a sort of an overlap, the non-executive directors' fees. This relates to an increase in the maximum fees payable to non-executive directors as set out in the notice of meeting.

As I mentioned in my earlier address, and a little bit of time has gone past since then, the proposal is to increase the maximum aggregate remuneration payable to the company's non-executive directors from two to 2.75. It's general practice to increase it by an amount which is hoped to cover a number of years afterwards, rather than to come back on an annual basis. Whether that's smart or not is under debate these days.

There is further information in the explanatory notes. You'll remember the two points that I made are that we've got one extra director than we had before, so that's a significant increase. In addition, we've now got two international directors, that's Phillip and Hugh, and so they are both involved in the governance and control of our operations in their countries: In Hugh's case in New Zealand; in Phillip's case in the UK. But whatever fees they get paid for the work they do in those separate companies which all have to comply with and meet all of the regulations of the statutory authorities in those countries, so it's just as onerous as if it were a separate company, the fees they get paid for that is included in here as well. The two factors that have pushed us up most have been an extra director and having to include those overseas board fees as well.

In relation to this, obviously as directors we can't make a vote on this resolution. In my case I can only vote proxies which are in favour of the resolution rather than open ones. Does anybody wish to speak on resolution seven separately from what's already been said?

Question:

(G. [Theratic]) Mr Chairman, I would like to know how this remuneration of 750,000 is going to be distributed. Is it going to be

all given just to those two new directors, because I can see that among all those ten directors there is a huge difference in the salaries, like Ms Hynes and Allen having probably the lowest remuneration. And is that distribution going according to their portfolios, according to their performance or duties that they are performing or anything like that? Thank you.

James Strong: Thank you, it's a good question. Each director is paid according to the role that they perform. So there's a basic director's fee which each director gets, and in the case of the chairman it's usually three times the amount that each of the individual director's get because of the difference in time spent and responsibilities and accountabilities. When somebody is appointed to another committee, such as the Audit Committee or the Risk Management Committee, they get an additional sum for being on that according to the time involved. If somebody chairs that, again with the additional responsibility they get paid for that.

So yes, it's shared according to what people do. But to cut right through this, basically you're saying well what's going to happen to that extra 750,000, well it won't all be spent this year, because there's some allowance for after that. But the basic fee for each director will go up \$20,000 per year. That's what the major adjustment is that flows from this. As well we now have to bring in these fees paid to the directors in New Zealand and the UK for the work they're doing in managing those subsidiaries and those companies. But basically each director's fee will go up \$20,000 per annum.

Question: (P. Starr) Thank you, Mr Chairman and fellow shareholders. Mr Chairman, I just have two points; I notice that the shareholder value went from \$6.60 now down at 4.60, so that's \$2 a share loss. And you're saying that this remuneration package for everybody will be for more than one year. So that means you are not going to come back next year and ask for more money, is that right?

James Strong: You're referring to directors' fees?

Question: That's right.

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- James Strong: Yes, that's our intention.
- Question: When would you expect that you're going to come back and ask for more money then?
- James Strong: Again, we've got an unusual situation because, as I've mentioned twice now, a large component of the increased fees that we've had to pay are because we've now got to include the fees for the work done in New Zealand and the UK. So conditions change, and it's varies from company to company. It also depends on whether you appoint more directors or reduce the size of the board as well.
- Question: What about in relation to the shareholder price, do you see some hope for going up? I mean we've been going backwards.
- James Strong: It's a pretty good question. I've tried to say before to other speakers that we acknowledge and have said that it's a disappointing performance at the moment. Obviously the big issue is to improve the share price and to add shareholder value. I hope that you got a clear message from Michael Hawker that he and his management team are very focused on it, I can assure you this board is, because it matters a great deal to us in terms of discharging our duties and in terms of our personal performance.
- Question: (I. [Skandrett]) James, Chairman, and the board, ladies and gentlemen. Just a couple of questions; I'd like to follow up on the previous speaker and just ask what are you intentions in terms of the board composition; let's say over the next three years. Do you intend to expand it or shrink it, notwithstanding any unforeseen events? Secondly, maybe the company secretary could just advise the terms of the current board, when they expire, so we may have an opportunity to consider whether this review of non-executive remuneration is in fact linked to the term of the majority of the board. Thanks James.
- James Strong: You mean when you can get us, Ian, is that what you –
- Question: Well Chairman, I think we're all conscious of returns. Somebody said to me the other day with this report, directors' shareholding losses will be offset by remuneration. It probably was a bit of a dry point, but it's

accurate I suppose. Yeah, we're interested in seeing if you guys will back us for a term.

James Strong: To come back to your basic point, I don't have – every director has to come up for re-election within three years, that's the normal rotation. I can just tell you from this listing, the only thing I have to hand, is I've been in office for six years and I was re-elected last year; Yasmin, two years nine months, so she'll come up in another three years because she's just been re-elected; Phillip has just been elected today, so he'll be another three years before he comes up; Hugh the same; Neil came up last year with me; Anna brand new today – actually it won't be three years because the number appointed this time means somebody will have to come up in two years, probably a couple of them within two years. Rowan Ross, Rowan, when are you due to come up again? It must be next year; I think Rowan would be next year. We'll probably have to advance one of the others to make sure that there is a normal rotation. So that's the sort of period. Maximum three, some two, some one.

Question: That's probably worthy of a bit of space in the annual report, Chairman. You might want to consider putting that report online not in a pdf form, but with some hover links over it, so some of the speakers today have said, well we'd like a little bit more detail on some things. You could just do that by having a link maybe within each particular section that takes you to a more detailed thing. That won't extend the length but, Mr Hawker, you'd know what I'm talking about here in terms of just sort of hyperlinking that report.

Michael Hawker: Yes.

Question: Also, Mr Chairman, I'm just saying with regards to those directors who are coming on board today, they've come in with their eyes open in terms of remuneration, the existing remuneration. So they're obviously not unhappy with the existing remuneration were it not to be reviewed today?

James Strong: Yes, I mean I'm loathe to open up another subject, but of course one of the things is that the general practice in Australia is that directors'

remuneration is not geared to financial performance. Now there are obviously big arguments for and against that. There are a lot of directors who say, well fine, let's gear it to financial performance. But the governing law view at the moment is that that is not the best way to get consistent results, that you fix a fee for directors. It's a very interesting point –

Question: Granted, but at an executive level we do have a link such as that, it's annual reviews and performance, there's indicators and so on. So maybe it's time for IAG to give some thought to perhaps part performance for the board based on the overall results. It's not a specific individual thing by any means, but I think there's probably an emerging wish in the community to see some link. Am I right on that, I think, yes?

James Strong: Michael just reminds me that one of the things that's been talked about; we have a rule here that every director must take a minimum of 20 per cent of their annual remuneration in shares in the company. I've actually run at 90 per cent of mine for most of my term, I'm not at 50 per cent. So it's not as if we don't have skin in the game. In fact there is one school of thought that says, well all directors should be remunerated only in shares instead of – these are subjects that people have been debating all around the place for some time. I'm sure there's plenty of opportunity for you to put your sixpence worth into that debate, through the Institute of Directors or Shareholders Association.

Question: I think I've made my point today, James, thanks.

James Strong: Thanks.

Question: (N. McCarthy) Mr Chairman, just one short question. You've told us that IAG's performance has been disappointing, I would say it's very disappointing. Why then do you think you're entitled to 37.5 per cent rise?

Heckler: Here, here.

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- James Strong: Mr McCarthy, that is the increase in the maximum limit of the fees. As I mentioned, the actual fees will go up \$20,000 per director as a result of this motion.
- Question: (G. Edwards) Mr Chairman, it seems on pages six and seven of the explanatory notes since 1 July this year, the board is already getting the new pay scale which, if I read correctly on page seven, will take the total above the \$2 million current level. That's correct, yes? Since 1 July the board is getting the new pay scale as detailed on page six, 390,000 to ...
- James Strong: I'll ask the company secretary to reply to you.
- Question: That is my correct reading?
- James Strong: Could we listen to the company secretary?
- Question: Please.
- Glenn Revell: Sir, the answer to that question is no. Certainly the board has passed resolutions to approve those increases but it is subject to the increase in the fee cap which has been put before the shareholders at today's meeting. Can I just make clear, sir, that the directors are not currently receiving those increased fees.
- Question: Right, thank you very much for the explanation. I just make the quick point, and I think Mr McCarthy has really covered it quite well; you're asking for effectively almost a doubling of the 2005 levels of fees, nearly double, at a time when the dividend at best is static; earnings per share down 25 per cent; return on equity down about 50 per cent; profit down 25 per cent; shareholders price or share price at 30 June this year \$5.70; yesterday \$4.45, and you're asking for a 15 per cent increase in each individual non-executive director and chairman's fees. There's a disconnect there and I just can't accept that.
- James Strong: Are there any other speakers? Okay, there being no further speakers we'll now display the preliminary results of the proxy instructions on resolution seven.
- Resolution eight is an amendment to the constitution to allow direct voting. So this is an amendment to the articles of the company's constitution. The full text of the resolution is set out in the notice of

meeting, and I now table a copy of the constitution that the company secretary has here, which no doubt everybody is queuing up to read. This has been initialled by the group company secretary; it contains the amendments to permit members to exercise a direct vote. Direct voting is another voting alternative for shareholders and is designed to encourage greater participation by shareholders at general meetings of companies. Direct voting will enable shareholders to cast their votes and not be dependent on the actions or attendance of an appointee. The directors recommend that shareholders vote in favour of resolution eight and we'll now hear those people who wish to speak on this resolution.

Question: (J. Tilburn) Thank you, Mr Chairman again, and ladies and gentlemen. I've done a little bit of homework on this. As an ex-high school teacher, as many of you know, 20 years I taught with the chalk and the talk. This amendment to the constitution has puzzled me. I rang up the company secretary, Mr Glenn Revell. I was more upset and worried after I'd spoken to him than before I spoke to him.

James Strong: Will I ask him how he felt after the discussion you had?

Question: Jack Tilburn's jack hammering is this. It appears to me to be hogwash. It appears to me to be convoluted baloney per my great lady on Channel 10, Judge Judy Sheindlin who unfortunately has died about a month ago at the young age of 65. She used convoluted baloney and I use it; it's very good. One very big disadvantage, sir, is one more layer of red tape and bureaucracy on top of the already well established red tape and bureaucracy for a proxy form. Now the proxy form has got certain advantages; you're ill, you're sick, you're overseas, you can't come, you put in an absentee vote like for the federal election. It's an absentee vote, the proxy form. It has advantages and disadvantages. The proxy form is very, very legalistic, but I fail to comprehend how in the blazes you are going to print, publish, display, the rules and regulations and conditions appertaining to direct voting onto the present quite overloaded proxy form. And raising our proxy form

today, page one, you set out the resolutions. Page two, there are six rules, regulations and conditions; a full up page there.

Surely by way of clarity and identity and visibility and seeability, you will be requiring a second page to be printed. And if not, then why not? Because the secretary unfortunately sort of spoke to me and said 'oh Mr Tilburn, don't worry, we'll be able to get all this on the same page'. I said 'you must be kidding'. Otherwise if you don't get this new page Mr Chairman, you will be destroying the very viable and workable proxy form which has on its reverse side several important rules and regulations and conditions. I think I've covered all the legal angles there.

No doubt all very legal corporate governance principles, including ethnical conduct to protect users of proxy forms. This new system may be very opposing to the proxy form already established, hence conflicts and disputes can arise or may arise. Comparing, and companies pursue far too small printing sizes already. They are obsessed companies, to destroy print seeability, print readability, and hence you can hardly understand what in the hell it's all about.

Now another question arises from the notice of meeting explanatory notes. I go down to the bottom, I think actually it's part of the new constitutional amendment, number four. I read and I quote "A member who has cast a direct vote may attend a meeting. However, where attendance cancels the direct vote unless the member instructs the company (I don't know how you're going to do that) or the share registry otherwise." Is that more forms to fill in? To instruct the company and instruct the share registry? I think it's a very big red herring. I think it's a lot of hogwash. And I think it's convoluted baloney. Thank you Judge Judy.

James Strong: I'll ask the company secretary. Seeing your first engagement wasn't all that meaningful Jack, I'll ask him to have another try to explain to you.

Glenn Revell: Thank you Mr Tilburn. I certainly did enjoy our telephone conversation last night. I didn't actually get much of a word in, in our conversation, but I nevertheless did enjoy listening to you.

Just in relation to that item point four, a member who has cast a direct vote may attend a meeting, however their attendance cancels a direct vote unless the member instructs the company or the share registry otherwise. That's the same right as a proxy holder. And you can simply do that by registering at the front desk when you attend the meeting to effectively revoke your proxy. In this case, where you've lodged a direct vote and you attend, you can register that you want to – in this case it automatically happens that if you attend and they know that at the registry desk, that your attendance supersedes your direct vote.

If I could perhaps just broadly address your responses Sir, and indeed in anticipation of these questions being asked of the directors today, I actually brought along here a pro forma proxy form. And very interesting for you Mr Tilburn, we've managed to fit it all onto two pages, which is the existing size of the proxy form, without reducing the font. And it would be my pleasure to show that to you or any of the other shareholders at the end of this meeting.

Perhaps if I could just recap. Direct voting has tended to be a simple method and to encourage greater voting participation by shareholders. It is not that direct voting ensures that the voter or the appointor is not reliant on the proxy holder attending and voting at the company's general meeting. Direct voting only requires relatively minor amendments to the company constitution. And equally it only requires small changes to the existing proxy form.

And from this viewpoint, it's rather simple for the companies to introduce. It doesn't require legislative change. Direct voting will not dispense with the current system of voting by appointing a proxy or corporate representative; a very important point. It is an alternative or additional form of voting. It's not there in substitution of proxy voting.

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The only downside in terms of direct voting is direct votes will not be counted on a show of hands. But as it is IAG's practice, which has been discussed here in the meeting to put all resolutions to a poll, this will not be an issue for our shareholders. IAG has 917,000 shareholders, second only to Telstra in terms of the size of its share register. Telstra introduced and shareholders approved amendments to its constitution along similar lines being proposed here today to allow direct voting. And there have been a number of other companies, including Mr Bruce [Steel's] Australian, some of Mr Bruce Steel's companies as well and I'm sure there's others.

Interesting to know Mr Tilburn and shareholders, that of those shareholders who have voted either by attending today or by proxy, there's only 71,000 have lodged proxy votes, which is less than 1 per cent of the total shareholders. And that represents about 40 per cent of the total votes to be cast. So there's 60 per cent of votes that are available to be cast, which have not been cast at today's meeting. Direct voting is not a panacea for the relatively low participation by shareholders at companies' general meetings, but perhaps something that over time may be seen by IAG shareholders as a useful and convenient way to vote at general meetings.

James Strong: Thanks for those comments. In the absence of any other comments, I'd like to ask for a display of – there's one over here.

Question: (I. Skandrett) Chairman, just clarify something for me if you would. When you receive a proxy vote as chairman which comes through the share registrar to you, you don't see the figures on that until today? That's correct? They effectively close off 48 hours prior, they're processed and you are presented by the company that administers our shares with those figures this morning. You don't get any indication of those prior to that time?

James Strong: I received the final figures this morning just before coming into the meeting here.

Question: Would the same procedure apply to direct voting?

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James Strong: The answer is yes. So in the absence of further comment, I'll show you the proxy voting. We'll now go to resolution number nine, selective buy back of reset preference shares.

This seeks shareholder approval for the conduct in terms of a selective buyback of reset preference shares or RPSs. Holders of RPS 1 are eligible to vote on this resolution. If you are the holder of an RPS 1 and have registered today, you will also have been handed a pink voting card on resolution nine only.

In accordance with the Corporation's Act, votes cast by holders of RPS 2 on this resolution will be disregarded. So it's only RPS 1. The full text of the resolution is set out in the Notice of General Meeting.

Directors recommend that you vote in favour of this. Does anyone want to address this issue?

Question: (Mr Williams) Mr Chairman again, the main reason I come here is for information. I've got these ones that we're voting on now. I didn't get a red form, I only got the blue; anyway that's a side point.

What I can't understand or what worries me is the fact when I took them out they're paying at 4.51 per cent and I thought well the interest rate will probably go down. Of course it's gone up and 4.51 per cent is frank but it's still not wonderful. But what attracted me was that one of the alternatives and what other companies have done was that you could get when it finally comes out next year, in six months time, a bit more, seven, you'll get shares at a discount of 2.5 per cent. It's clearly stated in there as one of the alternatives.

That seems to have disappeared. That's the reason why I've sort of hung onto the things. I mean it's not a very good rate of return at the moment. Now is that correct? That you've forgotten that? I know it's the alternative of the company, but I can cite about four others that I've had over the last two or three years which have all given a 2.5 per cent; and you know that as well as I. So it's a point of information that I'm asking.

James Strong: George, do you want to comment on that? George Vernardos is the group chief financial officer

George Vernardos: Mr Chairman, these securities have reached a point where they've rolled over and they need to be reset. The company has an alternative there to convert; we've chosen not to. We've chosen to reset the interest rate and to continue with those securities. So the alternative that you suggested has not been exercised. It's at the company's discretion to do so. It's not really an appropriate thing for us to do at this stage to create shareholder value to convert those into ordinary shares. The company has no use for those funds at this time. Thank you.

Question: Why haven't you – it's only six months away? If this is passed today presumably you've also got some of the [inaudible] you do the same thing in there. In other words if it's agreed to on this will it affect the next one?

George Vernardos: It's something that needs to be very, very clear. These types of securities allow us to convert our franking credits. It's all about getting value for our franking credits. We have not issued these securities in order to ultimately convert them into ordinary shares even though that's an alternative that's available based on the terms of issue. So it's very important that you understand as an investor, we do not intend to convert those into ordinary shares. We will continue to roll them over and change the interest rate, based on prevailing market rates at the time in order to utilise the franking credits.

James Strong: I will now put up the preliminary results of the selective buyback on RPS 2.
Now I've got to do the formalities on the resolutions before we get back to the open discussion. That concludes the debate on resolutions one to nine. I invite the company secretary to give instructions regarding the completion of voting cards. So Glenn, could you do that please?

Glenn Revell: For shareholders who are present and voting in person or corporate representatives and proxy holders, please complete your voting cards in respect of each of resolutions one to nine. Directions for completing your voting cards are included on the reverse side of the voting card.

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Please fill out your card in accordance with those instructions and sign the voting card where indicated. We will now pause to allow you time to complete your voting cards on each of the resolutions one to nine.

Question: There's something I want to stress which I think is highly relevant. May I be allowed to do so now?

James Strong: No, we'll come to an open session very shortly.

Glenn Revell: Once you have completed your voting cards, please tear off the top section of the card for submission to the returning officer, and keep the bottom section which can then be used later if you wish to address the meeting.

James Strong: Thanks Glenn. The collection of those voting cards will now commence as the resolutions which require shareholders to vote have been addressed. We'll do that while we move to the last item, an important of ordinary business; the receipt and discussion of the company's financial statements and report. The company secretary will explain the procedure for the collection of the voting cards.

Glenn Revell: The returning officer staff will now circulate and I think I've already seen them circulating amongst the shareholders and proxy holders here today with ballot boxes for completing voting cards while the discussion proceeds. Please hand your voting cards to them. Please take care to check that you have completed all relevant parts of your voting cards before putting them in the collection boxes, and retain the bottom section in case you wish to address the meeting later. The polls will not close until the end of the meeting, so if you need a little more time please indicate that to the returning officer staff. However to be effective, your voting cards must be placed in a ballot box before the close of polls at the end of the meeting.

James Strong: Thanks Glenn. Ordinary business, receipt of financial statements. The IAG financial statements of the year ended 30 June 2007, the director's statement and report and the auditor's report on the financial statements are before the meeting. A copy of these statements and reports was published in the annual report which has

been sent to those shareholders requesting a copy. It's also available on the website.

The purpose of this item on the meeting's agenda is to provide an opportunity for shareholders to ask questions and make comments of a general nature; anything to do with the company's performance, prospects, operating capacity, capability and management. The company's auditor is KPMG and it's represented at today's meeting by Mr Brian Greig who is with us. He will be available to respond to questions relevant to the conduct of the audit of the company's financial statement, 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 Corporation's Act, shareholders were able to submit written questions to the auditor. Three questions were received prior to today's meeting. These questions concern matters which did not relate to either the content of the audit report or the conduct of the audit of the financial statement. Responses have been provided to these shareholders.

All questions to Mr Greig should be in the first instance addressed to me as chairman, and if appropriate, I will ask him to address the meeting. If anyone wishes to speak in relation to this item, please make your way to the microphone queue. I think this lady here has been requesting. Would you like to go to that side over there, to number two thanks.

Question: (Mrs Coucke) What I have to say is not on the performance of your wonderful – but some information regarding the destruction of evidence and things that have been going on in the Kings Cross area. For instance in my – well there's so much to say, but I'll start on this point.

James Strong: I'm sorry, can I ask you what the relevance is to the shareholders here?

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- Question: My word I can. It causes a great deal of thefts and as here, I approached one of the leaders of CGU regarding an ICAC investigation on drugs being manufactured in housing commission homes. Now I went to the trouble of attending this court case and everyone...
- James Strong: Can I just say to you, I see your reasoning of saying it's related to crime in the area and therefore insurance and so on, but can I just ask you to...
- Question: But I want to explain exactly...
- James Strong: Can I ask you to limit your remarks to three minutes and then we'll move on to other questions.
- Question: All right. Two years ago I went to [Miss Lynn DeMearing] who is the place manager of Kings Cross. I told her that the injecting room were using a drain which are supposed to be used for storm water. And they were stuffing thousands and thousands of infected needles in that drain.
- Now as a consequence, the water went down underneath my house, made the footings drop, made the bearings rot, and if it wasn't for two very wonderful builders, after working all day, they worked well into the night to save my home. Because it was cracking, it was everything. And it's a home that has a permanent conservation order. Now that was completely the fault of this lady, Lynn DeMearing. Now there is another hand looking at it because then she joined into a – I'm making me very angry.
- James Strong: A conspiracy was it?
- Question: No it's not, I'm talking about she then is working for property manager. Not a property manager, and offered a sum much less than the value of the house.
- They come to your door, it's not the house they want, it's the land on which the house is built. They walk up your steps. We want your place, and I said you can't get it because it's under permanent conservation order and you're not allowed to do anything. Oh they say. Oh, laws are meant to be broken.

You're dealing with so much corruption and I can institute –
[inaudible].

I went to this ICAC. Now I want you to support me in having all these things investigated. They've got to be investigated. The premiums go up because the crime goes up. And the ordinary Australian is a very decent person.

It's the fact that all these cover ups which have been horrible, which has caused many murders are lost. They attack people who have heart conditions and therefore as a consequence they die. One murder was on the 21st of July. Another one was a year before...

James Strong: Can I ask you...

Question: And the police are not allowed to because of the government, and something's got to be done about it.

James Strong: Okay, I think you've had a fair go, because other people here are wanting to ask questions and so on. We can continue to discuss this outside of the meeting if you like, but I think you've had a fair go.

Question: But I think you should do something about it.

James Strong: Yes we hear what you're saying, but can we just now return to the ordinary business of the meeting.

Question: It's already started to be covered up by the Sun Herald, and this article was on the 30th of September this year. Because the people are being terrorised in the Cross.

James Strong: Thank you, and thanks for your comments.

Question: [Inaudible]

James Strong: Are there other people who wish to raise other points?

Question: (Mr Nagy) Thank you Mr Strong. Last year I raised the issue with you on diversification and risk, and I'm a bit concerned maybe that the board, and I know I'm going to get my head kicked in on this one. The board may not fully appreciate what I meant by diversification risk. Diversification does not eliminate risk, it just changes it, and IAG's growth strategy concerns me a little bit because of what's going on in the world.

What's going on in the world as you know, and this is since balance date, because that will have to be the next question, is the global financial melt down. The world is much more turbulent and much more unpredictable. I think the board should be doubly cautious about offshore investments, simply because acquisitions, 2/3 of acquisitions fail. It's a fact.

So I'm not suggesting your acquisitions are poor and they'll fail, but I'm just suggesting that it's worth the board take a hard look at these things.

Now specifically relating to the financials. I didn't notice in the financials and in one sense I can understand why I haven't noticed it. Any reference made to derivatives in terms of the sub prime mortgage crisis in America. I know this happened primarily in July and August after balance date, but I think we and myself would be a little bit more at ease if you could address that issue.

And finally my last point is that at note 18 there's mention of a capitalisation of software development costs. Well as an analyst, every time I see capitalisation I get a little bit shaky in the knees. I'm wondering just how much this is, and if there's any other capitalisation in it. It's a very clever way of avoiding expenses and inflating your profits.

So I'm not suggesting you have been here, but if you can address that issue also, I would be delighted. Thank you very much.

James Strong: I'll ask the chief executive to respond on each of those.

Michael Hawker: Thank you Mr Nagy. I might go in reverse order. Just in terms of the capitalisation of software, we don't agree with that. That's a current accounting change. Under accounting laws, we have to abide by it, because we agree with you, we'd rather expense it up front and see the cost as it occurs. But it's a requirement of changing accounting. So that's why we've had to do that. I think that changed last year probably. So that's the time frame of that.

In terms of sub prime, we have no exposure to the sub prime market. We have a very conservative investment portfolio in terms of we hold

all our assets against our claims liabilities and fixed income securities which have a very high rating, and primarily in government bonds. We hold most of our shareholders' funds in primary equities that are highly liquid and traded.

Question: You don't have any CDOs in either?

Michael Hawker: No.

Question: Okay, fine.

Michael Hawker: So we're trying to make sure the majority of our risk is insurance risk as an organisation, and to limit the other risks that we might have. There's enough risk in the insurance world not to exacerbate it and other parts of other risk elements.

In terms of diversification risk, I mean it's a fundamental principal of probability of events occurring, that if you can reduce any particular concentration and exposure of any particular event, then you are able to price it more effectively because you've got less capital supplied. So when we had a very high concentration as NRMA in New South Wales and particularly on property in New South Wales and property in Sydney, that event gives us a very high concentration of property risk for god forbid we had an earthquake here which is a very low probability, but a high expense should occur.

But we do get a prevalence of hail storms through Sydney as we saw in 1999. And if a major part of your business is only concentrated in primarily one city, then you are open to events in that one city. So what we're trying to do is diversify our business in other jurisdictions where we believe we've got a competency or we're buying a competency which will be successful in those jurisdictions. So it's fundamentally how we think about our business.

James Strong: Your broader point is taken as well Joe in that we're not about to start property insurance in Zimbabwe or something like that.

Question: (B. Gates) Good afternoon Mr Chairman. You've touched on the payouts for the storms and the bushfires. In light of the predictions of more severe bushfires and storms and flooding in the future by experts, do you have a contingency plan for future disasters at all?

Michael Hawker: It is Mr Gates, it's a considerable issue and we spend a lot of our internal resources as well as working with external experts on the change in climate around the world. And we fundamentally believe, and we've been a very strong advocate publicly that there is an increase in frequency frost. You have storms being caused by the warming globe, and that is having an ongoing effect for property damage of all our customers in the community.

We are modelling that as best we can. Our basis of our models is based on historical data but we're adjusting those models to reflect what we think might happen, and we're trying to do that as effectively as we can. But we are trying to assess the risk looking into the future. Now we do carry \$550 million worth of off balance sheet capital which in the event of a significant catastrophe we could exercise that, which is already sitting in our resources. We don't intend to need that, but in the worst case scenario we would have that event, we'd buy up to a very high level of reinsurance in terms of one particular event. So we buy up to \$3.5 billion to any major event in our property portfolio so that before we access our own capital base should the event become larger than that, and that's a significant event for our business, in any one of our jurisdictions. And would be an event which we do not expect to occur in our modelling. It's an event of a probability of occurrence of less than one in 750 years.

God forbid we're not here when that event occurs, but we have some sort of contingency for that to occur.

We are unable to carry in our accounts in this country the ability to have a catastrophe reserve which is available to some other accounting jurisdictions internationally. But we do have a conservative nature of reserving and putting financial resources away for future claims with inherently in the culture of the organisation.

James Strong: Thanks Mr Gates.

Question: (P. Starr) Mr Chairman through you to maybe Mr Hawker the CEO, you talked about in relation to the UK, and we've taken a significant

loss in the UK, and what's been done to address that situation and maybe to offload so we're not going to carry a further loss?

Michael Hawker: Mr Starr, thank you for that comment. We haven't had a major loss in the UK. We just haven't generated the return we would expect to make in the UK. We've made quite a significant investment as you know about over \$1.5 billion into the UK.

So we do expect that business to generate substantial return in the future.

What we are dealing with in the UK is a primary investment in the motor insurance marketplace. The motor insurance marketplace, currently as a market is in a very poor part of its cycle. It is a cyclical market, and as I said, currently as best we can assess the 2006 year, the average underwriting performance in market was losing 11 cents in every dollar from the underwriting point of view. Clearly you've got investment earnings on top of that.

As a business we generated a small profit. We're trading 10.5 percentage points better than the marketplace in the UK, but the marketplace generally got worse.

We are doing everything we can to tighten up our underwriting criteria. We're putting price rises through all our major lines of business in terms of private motor to try and rectify the inadequate return that's held against those policies. And we are going through quite an integration in that business to try and take out cost.

We've got £25 million of percentage of costs we're trying to generate out and putting the two businesses together.

We believe that the combination of those events, we believe we're adequately reserved for the current financial performance of that business. So we do not anticipate the need to put further financial reserves against existing portfolio, but we do expect that the market we believe is close to turning, if not turning at the present time. We do expect in the medium term to generate significant return out of those investments.

Therefore we're saying it is worth our while staying in those investments because of the expected future return on those portfolios which is yet to occur.

James Strong: That was a good question to clarify the UK situation, so thanks for that.

Question: (J. Tilburn) Ladies and gentlemen, I'll be a little short perhaps because time's moved on. It's 20 to one. But I would like to say that I do believe Mr James Strong that our financial reporting and directors reports, audit reports should be first. You're going to do that at Woolworths on Friday I hope. I'll be there.

But ladies and gentlemen, we had nearly 400 people. We've only got 200 people left. Why? Because they can't stay on and on and on for this most important – this is the major, major, major item issue of any annual general meeting. What in the hell has happened to our money? OPM. Other peoples' money.

Right, I've made that point. Mr Strong can only say certain things on page six in his Chairman's review. I shall pick them up and then I will ask through him for Mr Hawker to give the extra nuts and bolts.

Net profit after tax of \$552 million was achieved, compared with \$759 million in the previous year. Well, we're all down in the mouth about that. When a company's profit falls by 25 to 30 per cent of course we're all down on the company. What in the hell is going on?

This result was affected substantially by the \$200 million pre tax impact of the severe June storms in Australia and the United Kingdom, as well as amortisation costs associated with the newly acquired United Kingdom businesses. And lower investment returns on shareholder returns.

I want to pick up on those three things. I want to pick up on why haven't we got some special reserves or capacity reserves I heard Mr Hawker speak about with our disasters of natural events. Amortisation I will pickup on, and lower investment returns.

Let me just add these extra comments so you are in the loop. I want explained \$47 million of amortisation expenses in United Kingdom, and please Mr Hawker and Mr Revell, see that amortisation is placed in our glossary so we can all understand what in the hell is going on for \$47 million.

Please also explain \$167 million losses on investments and say sorry and say an apology as the politicians never do that.

Our consolidated balance sheet on page 60 says, investments 10.8 billion up from 9.9 billion last year ladies and gentlemen. And let me bring it home to you. My share portfolio in those 12 months has gone up by \$1 million, not fallen by \$169 million. So the scathing criticism comes from Jack Tilburn. What has gone on with the fund managers, the fund portfolio managers? Are they all bad? Are they all no good? Are they failures? How in the hell can you lose \$169 million? You must have selected some very, very bad portfolio identities and companies.

Now, let me pick up on through you Mr Strong, the consolidated income statement, page 59, corporate administration and other expenses. \$532 million, up from \$298 million the year before. 78.5 per cent increase. How can we be running up \$10 million extra each week. That's what it is. \$10 million by 52 weeks, we have gone up \$520 million. It's unbelievable. How can we spend \$10 million a week? After all, we're not the QBE Insurance Company, we're not the Suncorp or Metway Insurance Company, we're little old IAG.

And I think you should explain a bit more about how we can have \$200 million impacting I believe on our bottom line through storms in Australia and the United Kingdom. I looked up the balance sheet and there is no reserves. I thought that we would have plenty of reserves. Although you did say, Mr Hawker, that you had several hundred millions off balance sheet. I don't like that. Thank you.

Michael Hawker: You've asked a vast number of questions. Let me look at this in a couple of items. Firstly on the investment returns. We didn't lose money on our investment returns, we earned less this year than last

year and before you jump at that, there is a number of reasons for that. Firstly, last year we had more of our funds invested in equities than we did in this current year. So we had 95 per cent of our shareholders' funds in the 2005/6 year invested in equities, whereas, during the '06/07 year we reduced that 50 per cent of our investments being in equities and moved the balance into fixed income and cash like instruments. So the ability to earn the higher return was reduced, but so is the likely volatility of those earnings being reduced simultaneously.

The earnings in our portfolio was 26 per cent in Australian equities, which was slightly under what the average was for the marketplace the year before. We were 1.5 percentage points above the market in terms of the equity performance of our portfolio managers.

The reason why we reduced the percentage of equities in our shareholders' funds is twofold. Firstly, we made a significant investment in the United Kingdom of \$1.5 billion and we used some of those shareholders' funds in that investment rather than sitting earning equity returns without being invested.

And the second reason is that we have been diversifying the risk in our organisation from being primarily concentrated in New South Wales and Australia, which if we held equities against them gave them some diversification for an economic downturn here, which would impact our fixed income portfolio more than it would our shareholder portfolio. So as we have further diversified our risk in insurance, we have reduced our risk in terms of equities, so that we generate the most optimal return on capital deployed across all our risk portfolios.

So we will have a lower, moving forward, absolute return in shareholder funds, we will have a lower volatility at the same time, because we don't have the vagaries in our investment performance. And you remember from one of my slides earlier in the presentation, where I showed you that in 2002 our after tax profit was negative because of the fall in the equity markets on our shareholders' funds.

And then, during '04, '05, '06, we've had very positive shareholder fund reserves as the share markets obviously performed very well. And we have been now reducing our shareholders' funds in equities back to more fixed income. So we've got a lower volatility, we're going to a lower return out of those shareholders' funds, but at the same time we've got a better diversified business. We've used that capital in our insurance businesses.

That's fundamentally what we've done. We are very disappointed in the performance of that investment in the United Kingdom in its current earnings form. We have a high expectation however, that the investment will generate the expected return we're expecting to make on those investments over the next few years, and we would expect to earn in excess of \$250 million in the United Kingdom from those investments, and we're not earning that at the present time.

In terms of amortisation and expense, the reason why I mentioned earlier to Mr Nagy, the reason why our corporate expenses went up was because of the added investment in our United Kingdom businesses and it has the expense base of having those United Kingdom businesses. And part of the full exposure of the investments we had in Asia. So you're getting the expense base of both those things now impacting on the overall corporate expense base.

And as I explained, the Australian and New Zealand expenses have been kept relatively flat over the last four years. So I believe we've got good expense management. The increasing expenses have come through greater investments, as we've expanded the company internationally.

With those expansions of the business internationally, comes with it a requirement on your accounting requirements to amortise some of the assets we have, or the value of the assets that we've bought, and we've bought all sorts of different assets in terms of the two companies we bought in the United Kingdom, some which are not amortised. The carrying value of that asset sits on the balance sheet

and is revalued each year to make sure its carrying value is still adequate, and if it is not you'd mark it down against your P&L. And then we have other assets which we amortise the cost of over a five or the existing life of those assets, and so some of the brands for instance we have to amortise through the P&L of the company as a cost over a period of time, so that at the end of that time you are carrying that brand as a free asset in terms of your balance sheet. So there are different sets of accounting requirements in terms of how – what we're required to expense through the P&L and what most of the analysts do is back out that amortisation to look at the cash earnings of the company, because that's an accounting requirement which you have to deal with and impacts your short term performance. So I think they're the three issues you had. The investments, the amortisation and the cost base. The last thing you said was our investments, our asset, the funds we're investing have gone from 9.9 billion to 10.8, that is a function of the investment return we earned on our shareholders' funds, increasing the size of investments. And secondly and more importantly, it is the increase in the claims reserves, or the money we are putting away against future claims. So we are carrying high total reserves, because we are carrying more risk, because we've made more investments. So we are carrying an increase of 9.9 to 10.8 in terms of investments, and we hold those investments against our claims reserves, primarily in fixed income. So we're not going to earn a shareholder return on them. We don't want them open to the vagaries of the economics of the share market. We want them to be quite certain, so that when we need to play claims we're able to liquidate those investments to provide the cash resources to be able to pay claims. So we run them very tightly controlled in a duration matched portfolio. So that's how we look at the business. In terms of the last question, I think you said was we did have the impact of the storms of \$200 million. And that happened in the last three weeks of the financial year for us. And we carry the first \$200 million of any major

catastrophic event as part of our costs in our P&L. So if we have a major catastrophic event, like the Queen's Birthday storms, we carry the first \$200 million of loss, and then our reinsurers carry the \$200 million up to the limit of our reinsurance program, and then if it is even bigger than that, we come back and use some of our capital.

We measure the amount we carry as being quite conservative. We try and have it as less than 4 per cent of our net earned premium, we're currently running about 3 per cent of our net earned premium, that's the amount we carry in that retention. It is something which we assess quite regularly, and there is a lot of debate and looking at that presently as whether we should reduce that retention or not because of the increased frequency in ferocity of storms.

Our current view is we should not, because we do not believe – we've now paid two consecutive years for that \$200 million of costs, we do not expect them to occur every year. We should earn some value out of carrying that exposure, that \$200 million, and we do not hopefully expect to have a \$200 million claim each year.

Question:

(A. [Lawkey]). Chairman, it's been a very useful meeting and I'd like to offer my thanks to yourself and your staff team and a number of my fellow shareholders who have a good way of focusing on questions.

My question relates to the fact that it is a tough competitive world, and I was surprised to find that the share price of Promina went up the way it did before they were bought up by Suncorp Metway. I didn't think it cast too much brilliance on Suncorp Metway to wait around for a year or two and pay more, however, they know their own business best.

I imagine that somewhere in the IAG office there is a back room somewhere where somebody does some sleuthing on how things work up there in Brisbane and how things work at QBE. I was surprised last week to be urged by a stockbroker to buy into QBE. Me, a loyal IAG shareholder. Why would you pay so much for a share in QBE? Maybe I should find out.

But what are your thoughts about these guys who are breathing down your neck? How do you rate IAG being able to fight the good fight in

the next few years, bearing in mind that the rain and the droughts fall on the just and on the unjust?

James Strong: It's a very good question sir, and I have to be very careful. Of course, we don't want to say anything disrespectful about competitors in the market, but I'll ask Michael to supplement this. But they are three very different companies operating three quite different businesses, and as you know for a start, Suncorp is a bank and insurance business, which is heavily founded on the belief that they will convert business from one to the other and that that will be in their long term benefit. QBE is substantially a long-tail insurance business which we're not. We are substantially short-tail, and they have really significant operations offshore, as you know, and their method of operating has been to acquire a lot of business offshore and then merge it into their business. It is not appropriate for us to comment as to whether we think they're sound or unsound, or whether they reserve enough money or not, that's not an area that we can go into. But the fundamental thrust of your question is how do you think we will perform relative to those others. Well, I can't punt the share price to you, but I hope that the shareholders here today have got from us a message that we accept the responsibility and now that this has been a disappointing result this financial year, and that we are very focused on doing something about that in every area of our business. We, as a board, have great faith in the future of this company. We acknowledge that it has had this setback this year and we can't transform that overnight, because a lot of it is due to cycles. But we can assure you that in every way possible this company will be strengthened and the areas where we are doing very well will be the areas where we concentrate in terms of our future investment and we believe that we've got the resources and the people in the leadership to respond properly and adequately to the challenges that you refer to. Michael, do you want to add a comment about that?

Michael Hawker: Thank you Mr Chairman. I won't add much more, other than to say that we do do a huge amount of competitor analysis and we think

that's very appropriate, obviously, to understand competition in the marketplace. I believe we are a very competitive proposition in our markets and I believe our customers are telling us that in terms of the quality of what we offer and I think we've got some wonderful franchises.

We certainly, with Promena being bought by Suncorp, we are trying to attract some of the key individuals and we have attracted some of the key individuals, which we think are beneficial to shareholders and the strength of the company, and I made mention of Mike Wilkins, obviously, and we've got one of the previous board members as well. And we have a number of people that my executive team have hired in the recent days in their businesses to further supplant the quality we have in the management.

So I think it is inappropriate for me to make any comment about a competitor, which might be construed in the wrong way, but I can tell you that we take a great interest in our competitors and do everything we can to out compete them.

Question:

(I. Skandrett) Chairman, I'd like to follow up on a few comments made in the accounts. Excuse me, I was late for today's meeting, so I'm not sure that Mr Hawker addressed the following. My first question is in the small business segment, just to get some indication from you Michael on what our market share there is and the trending has been in that segment. It's now the biggest employer in the nation. I think about 1.3 million small businesses are by anyone's definition. And that is sort of going to led me into a bit of a comment about whether any of the directors feel they have a particular association with small business or an understanding of that. I mean, certainly, Anna Hynes, I welcome you on board, you've got some understanding of the frontline of retail, for example, from the Amex and the Country Road point of view. Certainly our chairman has some understanding of that. But that's more of a corporate side of things. I'm particularly interest in the SME type of things.

I'm interested in the effects of interest rates at the moment. It could be argued we are a less attractive proposition. The market is reflecting that, and people might be deciding to vote with their feet a little bit in that area. What are the effects of a rising cash rate in terms of our business? What does the company see that as? That's one for you Michael.

Every, I think for the last three years, I've asked questions about unlicensed and unregistered motor cars and drivers. It's an issue that affects us all, because obviously it ensures a certain amount of confidence in comprehensive insurance if there is a certain amount of risk. You could argue there is a conflict maybe there. I know the company says it is reactive with insurance council and various government committees, but I think we know that it is trending the wrong way at the moment in a public sense. So I would like some comment about that.

It takes me to the elderly driving debate. The NRMA of course is looking at that at the moment. A strong political interest on that, but for those in the audience who may not have heard some of that debate, were you to be an elderly driver and were you to be in some way in breach of those new regulation if they come into effect, whether it is outside an agreed limit or an area in which you may be licensed to drive afar whatever is the regulatory age, you are technically in default, and were you to be stationary at a set of traffic lights, one kilometre outside your agreed area, and somebody ran into the back of you, you are technically unlicensed at that instant and you are technically uninsured.

And I would like Michael for the company to address that particular problem and the conflict it has I guess, now that we are a commercial enterprise. How will we deal with a technical breach of that legislation should it proceed?

James Strong: I think that may be enough for the moment thanks Ian.

Michael Hawker: Thank you Mr Skandrett. Just firstly, on the small business segment. It's our commercial enterprise both here and in New Zealand is heavily

weighted into the small business sector, with the largest rural underwriter for instance, we've got about 50 per cent of the market, and which is primarily small business people. So that's a very large part of our portfolio.

We have both a very strong franchise through CGU in an indirect sense through regional brokers. We've got the largest regional broker network, so I think we've got a very inherent understanding of that. We've also, under the NRMA brand, have a direct offering for the SME customers, which has been well accepted, and we've introduced that into New Zealand as well, called EasyBiz, where we've got packages built for certain sectors in the marketplace. So we've got a highly skilled customer base in our broker force, which are dealing with small business operators, who know their customers intimately, and we've got a direct offering as well which is focusing on individual product sets for the smaller end of the SME marketplace. So I think we've got a long history that CGU has been in this market since the mid 1800s and the same in New Zealand. So it's a very long history and a very deep understand of that part of the marketplace.

On interest rates, interest rates have a number of effects to us.

Broadly speaking, clearly in terms of our investment portfolio we'll earn a higher yield. It has a short term impact in that fixed income securities have a capital loss, but we amass that against our claims liabilities so it is offset and we should get a higher funning yield over time.

The second impact is that if the interest rates have a negative impact on economic growth then you start to see the impacts of economic growth impact on insurance franchises, and you get two responses. You get people insuring their assets to a higher degree, because they can't afford to lose them, and you get other people who tend to under insure because they can't afford disposable income. And you get a slight increase in fraud as the economy slows down. So even though we can't prove it, there is a reasonable statistical alignment between

property fires and weakening economy. So it is something which happens as part of our franchise. So it has a multitude of effects. We find that over time we don't have the same impact to changing economy as say a fast food consumer goods company does. But clearly, there are some impacts to us.

In terms of unlicensed and unregistered motor cars. Clearly that is a major concern of all of us, because you've got people who essentially are flouting general law, which is there to try and protect people in terms of events of bodily injury accidents and accidents. So we clearly are trying to everything we can in working with various authorities which work on that to try and reduce the level of unlicensed and unregistered motor cars.

Question: Trends in that area?

Michael Hawker: Trends in that area, I don't have actually that specific – I can probably get that, one of our guys can get that.

Question: I'll ask the question next year too.

Michael Hawker: But I think it is interesting because there has been some recent activity within the police force to try and spot check cars and make sure their licensed and registered, and they're finding there are a number that are not, and that's happening here and in the United Kingdom, in fact, as people are trying to find ways of reducing that impact. So clearly that is a concern to us and has been for a long period of time. And we work very closely with various authorities to try and reduce that risk for all of us.

On the elderly driving debate. It is an interesting issue for us, we haven't participated actively in that forum, other than to say that in our statistics there is no doubt that as you age you improve your driving to a point, and when you cross, on statistics, you cross a certain your driving gets worse again, and I know my father-in-law doesn't accept that point. But that happens and as people's facilities aren't as – reflexes aren't as strong as they used to be, you find that they're preponderance to have accidents increases.

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Question: I think a general response from one of the meetings I attend on this was that people don't have a problem with compulsory testing at an age, and that probably represents different viewpoints for some, but it's more the curtailment, if you wish, of choice.

Michael Hawker: Freedom, yes.

Question: And most elderly drivers, I agree with you there is probably a peaking and then it goes off again, but tend to be responsible. So look, NRMA certainly is advocating in this area there is no doubt about that, as the road service and motoring group, but I think it is important that we see some discussion from you.

Michael Hawker: We're obviously very close to the motoring services organisation. We share a lot of customers, we share the same brand, in the same building, and we share a lot of the same people. So we're very close to them and we have a very close alignment to them, and so the discussion goes both ways in terms of how best to provide the best community outcome which is really what we're looking for it.

Question: Glad to hear it. Thank you.

James Strong: Well, ladies and gentlemen, I think everyone has had a fair go and so I propose to close the meeting very soon. I have to do some formal steps to do that, which are quite boring, so before I do that, can I just say thank you very much for your attendance here today. We know that everyone is concerned about the recent performance and we've got a very clear message about that, which we did understand beforehand, but it certainly in value in the exchange that takes place on a day like today.

So can I say to all of you thank you for attending the meeting and taking a very keen interest in your company. So thank you.

What I will now do is to close in the formal sense. Please hand in all the voting cards and all the proxy holder voting cards which have been lodged by shareholders at today's meeting be counted as expeditiously as possible. You know that it takes some time for that to occur, and to be sure that's complete and accurate, and I mentioned earlier in the

meeting where the information on the final voting will be displayed, both on our website and at the ASX.

So with those comments, I'd like to now declare the meeting closed, with the exception of the counting of the votes and the announcement of the results of the polls as I've outlined before. On behalf of the board of directors, I'd like to thank you for taking the opportunity to attend today's meeting and for contributing to the discussion of the business before the meeting. I declare the meeting closed. Thank you very much.

End of Transcript