

**ADDRESS BY MR JAMES STRONG**  
**CHAIRMAN, INSURANCE AUSTRALIA GROUP LIMITED**  
**2009 ANNUAL GENERAL MEETING**  
**10 NOVEMBER 2009**

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

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

**FINANCIAL PERFORMANCE**

IAG delivered encouraging financial results for the 2009 financial year due to the decisive action taken after the Group's disappointing performance last year.

Importantly, we have made good progress implementing the corporate strategy announced in July 2008, which set a clear direction for the future.

This has involved a number of tough decisions, including significant management and operational changes and the sale of some parts of our business in the United Kingdom.

The Group's operating model has been simplified and now better aligns our business with customer needs. This has also enabled substantial cost savings and increased efficiency.

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

In Asia, we have continued to invest for future growth opportunities, such as our joint venture with the State Bank of India.

There is still a lot of work to be done, however, IAG's 2009 financial results reflect the early benefits of our refined strategy. In the year to 30 June, 2009:

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

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

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

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

## **CAPITAL MANAGEMENT**

It was important for IAG to strengthen its capital position during the year because of the unprecedented volatility in global markets that I mentioned earlier.

Our success in raising more than \$530 million from institutional and retail shareholders in the second half of the financial year confirmed the market's support for our strategy.

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

IAG also continues to maintain the highest financial strength ratings from Standard and Poor's for any Australian-based insurer, with 'AA-' ratings for each of our key wholly owned insurers.

In summary, IAG remains strongly capitalised.

## **DIVIDENDS**

The Board declared a fully franked final dividend of 6 cents per ordinary share, which was paid on 2 October 2009. This brought total dividends for the year to 10 cents per share, fully franked.

This represents a payout ratio of 71.5 per cent of cash earnings, which is slightly above the target of approximately 50 to 70 per cent of cash earnings that was outlined in the dividend policy introduced by the Board during the financial year.

## **BOARD AND EXECUTIVE REMUNERATION**

There was no increase to the overall fees received by IAG directors during the 2009 financial year and no increase is planned for the 2010 financial year. Similarly, there will be no increase to the fixed pay for the Chief Executive Officer and the executive team in the 2010 financial year.

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

Brian Schwartz, Chairman of the Nomination, Remuneration & Sustainability Committee, will speak to you in more detail about our approach to remuneration before you vote on the fourth item of business at today's meeting – Adoption of the Remuneration Report.

After Brian's presentation, you will be invited to ask questions about the Remuneration Report and our remuneration policy.

### **BOARD SUCCESSION AND RENEWAL**

At last year's Annual General Meeting, I indicated the Board, including CEO Mike Wilkins, had agreed on the need for stability in the Chair position during the implementation of our revised strategy and changes in management and governance.

I also informed shareholders when I was re-elected that, under the Board's tenure policy, this would be my last term as a director and that the Board had commenced planning for an orderly succession in the role of Chairman.

The Board engaged professional advisers and undertook external benchmarking to assist in this important transition.

As a result of this process, the Board has unanimously agreed to appoint Brian Schwartz as Deputy Chairman of the Board. Brian will take over the role of Chairman when I retire at the end of the current financial year. This timeframe will ensure a smooth transition process.

As most of you know, Mr Schwartz has had an outstanding career in business.

He has been a director of IAG since January 2005 and is chairman of the Nomination, Remuneration & Sustainability Committee.

Mr Schwartz is also a director of Brambles Limited and Westfield Group. He previously served as chief executive of Investec Bank (Australia) and Ernst & Young Australia and was appointed a Member of the Order of Australia in 2004 for his services to business and the community.

Mr Schwartz has already made a significant contribution to the IAG Board and I believe he will be an excellent Chairman. He has the key qualities to chair the IAG Board – competence and commitment combined with an open and engaging approach.

We also expect to appoint another director next year. We shall make an appropriate announcement as soon as this appointment is made.

## **OUTLOOK**

Over the past year, while facing numerous and substantial challenges, we have rebuilt the fundamentals of our business and positioned the Group well to further restore value and profitability.

The Group's 2009 financial results were encouraging and I am confident that the improvements evident in our underlying performance will continue in the year ahead and deliver stronger returns for shareholders.

In often difficult circumstances, our people have worked hard to make IAG a more efficient and profitable business. The Board would like to thank them for their sustained efforts during the year.

I look forward to continuing to work with the Board and Executive as we continue to improve the performance of the Group.

I now ask Michael Wilkins, our Chief Executive Officer, to make a presentation to you before we turn to the formal business of the meeting.