

**ADDRESS BY MR BRIAN SCHWARTZ**  
**CHAIRMAN OF**  
**IAG NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE**  
**2009 ANNUAL GENERAL MEETING, 10 NOVEMBER 2009**

Thank you Mr Chairman and good morning ladies and gentlemen.

The Group's remuneration report, which can be found on pages 18 to 35 of this year's annual report, outlines in great detail the remuneration practices of the Group and the remuneration of directors and the executive team.

As a result of the increasing complexity of remuneration reports, the Board thought it would be beneficial to highlight some of the key remuneration decisions taken this year, and to briefly explain the key elements of our remuneration strategy.

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

- First, in view of the difficult economic conditions, the Board decided there would be no increase in the fixed pay of executives in the 2010 financial year. This decision was readily supported by management;
- Second, there will again be no increase in the fees payable to directors. This means directors fees will not have increased since July 2007;
- Third, the Board decided to discontinue the non executive directors' share plan and implement a shareholding policy which requires directors to attain an IAG shareholding with a value equal to their annual Board fee, within three years. This initiative further aligns their interests with yours;
- Fourth, caps have been placed on the short term and long term incentive opportunities provided to executives, and we have disclosed those caps in the remuneration report;

- Fifth, the performance hurdles for future grants of long term incentives under the Executive Performance Rights plan have been adjusted so that IAG's performance will be benchmarked to a better match of comparable companies, the Top 50 ASX industrials; and
- Finally, the Board has decided that while it is not required to do so, in the interests of good governance, it will seek shareholder approval for grants of share rights to the Managing Director & CEO.

In outlining the key elements of our executive remuneration strategy, it is important to highlight that our practices are designed around four primary objectives:

- To attract and retain high quality people;
- To reward superior performance;
- To strike a balance between rewarding short term and long term results; and
- To align remuneration with returns delivered to our shareholders.

I will now address each of these in a little more detail.

### **Attraction & retention**

Our remuneration policies must enable us to attract and retain the best insurance executives in the markets in which we operate.

We do this by providing executives competitive fixed pay as well as an opportunity to earn short term and long term incentives based on the financial performance of the businesses that they lead, the execution of their business strategy and the long term financial performance of the Group.

When setting fixed pay for an executive, we engage external advisers and consider the fixed pay of executives in comparable roles in companies of a similar size to IAG. We position our fixed pay towards the middle of the market.

When the short and long term incentive opportunities are added to fixed pay, executives have the opportunity to earn total remuneration that is towards the top

quartile of the market. However, it is important to note that this will only occur where there is superior performance and delivery of results.

### **Rewarding superior performance**

Our short term incentive plan is directly linked to our strategic planning process.

Corporate strategy is set annually and outlines how the business will compete in its chosen markets and create value for shareholders.

To measure performance against the agreed strategy we use a balanced scorecard. Importantly, the measures in the balanced scorecard relate to both financial measures, such as return on equity and underwriting profit, and non financial measures, such as the achievement of customer satisfaction, employee engagement, effective risk management and internal process improvements.

This balanced scorecard approach begins with the Board and is cascaded throughout the Group so that every employee has goals and objectives that are consistent with and support the delivery of the Group's strategy and priorities.

On average, the STI payments made to the executive team in 2009 were just over half the maximum opportunity that was able to be earned by them. While this reflects IAG's improved performance in the year just passed, it also indicates the Group has significant scope to further improve its performance – both financial and non financial.

### **Balancing short term and long term performance**

Our short term incentive plans are based on the delivery of strategic priorities that are measured over a 12 month period. However, a portion of each STI payment is spread over three years.

Two thirds of the STI is paid as cash and the remaining third is provided as a grant of share rights which vest progressively over three years. The ultimate value of this

deferred STI payment is directly linked to changes in the value of IAG shares and therefore directly linked to the interests of shareholders.

The deferral is a mechanism to retain executives and to ensure that they are focused on business performance beyond the current year.

Our long term incentive plan – which is in the form of Executive Performance Rights – creates another link between the achievement of the strategic financial targets set by the Board and the remuneration of the executive team.

Executive Performance Rights may be exercised for shares between three and five years after they are granted – but only if certain performance hurdles are achieved. For the Executive Performance Rights **to fully vest**:

- The Group's total shareholder return, when measured for three to five years and compared against the returns delivered by companies which make up the Top 50 ASX industrial companies, must rank in the top quartile; and
- The Group's average return on equity, measured over a three year period, must be 1.8 times higher than the Group's cost of capital (which equates to an insurance margin of about 15% to 16%, versus 7.1% achieved in the year to 30 June 2009).

Our stated objective is to deliver a cash return on equity of at least 1.5 times the Group's cost of capital, and if we do not achieve this there is no vesting.

These are very challenging performance hurdles.

Despite the value of the Executive Performance Rights being published as though they are included in the remuneration of the executives each year, the rights do not automatically vest. In fact, no financial benefit is received for at least three years and only then if performance hurdles are achieved.

## **Alignment with returns delivered to shareholders**

In addition to the Group's short and long term incentive plans, the Board has also established a share ownership policy. Each director and member of the executive team must acquire and maintain a substantial shareholding in the company.

In summary our approach to remuneration seeks to balance the objectives of:

- Attracting and retaining quality executives while ensuring that remuneration is not out of step with the market, the community or shareholder expectations;
- Rewarding superior performance; and
- Providing incentives to create value for shareholders but always with a focus on risk management to ensure the business remains financially sound.

In the year ahead the Board will continue to review remuneration practices in light of the substantial regulatory changes that are occurring. As I said earlier our initial view is that there is a high degree of alignment between our present remuneration practices and the reports from various reviews including the one undertaken by APRA.

Thank you for your attention and on behalf of the Board of directors, I commend the remuneration report to you.

Thank you.