DIRECTORS' REPORT

The Directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2016 and the Auditor's Report thereon.

The following terminology is used throughout the financial report:

- IAG, Parent or Company - Insurance Australia Group Limited; and
- Group or Consolidated - the Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

The names and details of the Company's Directors in office at any time during or since the end of the financial year are as follows. Directors were in office for the entire period unless otherwise stated.

CHAIRMAN

ELIZABETH (EB) BRYAN AM

BA (Econ), MA (Econ), age 69 - Chairman and Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Elizabeth Bryan was appointed as a Director of IAG on 5 December 2014, and became Chairman on 31 March 2016. She is the Chairman of IAG's People and Remuneration Committee and Nomination Committee, and a member of the Risk Committee. Elizabeth is also the Chairman of Insurance Manufacturers of Australia Pty Limited.

OTHER BUSINESS AND MARKET EXPERIENCE

Elizabeth brings extensive leadership, strategic and financial expertise to the position of Chairman.

She has over 32 years of experience in the financial services industry, government policy and administration, and on the boards of companies and statutory organisations.

In addition to her role as Chairman of IAG, Elizabeth is also currently Chairman of Virgin Australia and a Director of Westpac Banking Corporation.

Previous roles include Chairmanship of Caltex Australia Limited and UniSuper Limited.

Directorships of other listed companies held in the past three years:

- IAG Finance (New Zealand) Limited (a part of the Group), since 2016;
- Virgin Australia, since 2015;
- Westpac Banking Corporation, since 2006; and
- Caltex Australia Limited (2002-2015).

MANAGING DIRECTOR

PETER (PG) HARMER

Age 56, Managing Director and Chief Executive Officer, Executive Director

INSURANCE INDUSTRY EXPERIENCE

Peter Harmer was appointed Managing Director and Chief Executive Officer of IAG on 16 November 2015. He is a member of IAG's Nomination Committee.

Peter joined IAG in 2010 and has held a number of senior roles, most recently as Chief Executive of the IAG Labs division, responsible for driving digital and innovation across IAG and its brands, and creating incubator areas which will specifically explore innovative opportunities across the fintech landscape.

Before this, Peter held the role of Chief Digital Officer with a remit to develop a group-wide digital strategy. He was formerly Chief Executive of the Commercial Insurance division created in July 2014 when IAG implemented its new operating model. He joined IAG as Chief Executive Officer, CGU Insurance.

Peter was previously Chief Executive Officer of Aon Limited UK and a member of Aon's Global Executive Board, and spent seven years as Chief Executive Officer of Aon's Australian operations.

He has over 35 years experience in the insurance industry, including senior roles in underwriting, reinsurance broking and commercial insurance broking as Managing Director of John C. Lloyd Reinsurance Brokers, Chairman and Chief Executive of Aon Re and Chairman of the London Market Reform Group.

Peter has completed the Harvard Advanced Management Program.

Directorships of other listed companies held in the past three years:

- IAG Finance (New Zealand) Limited (a part of the Group), since December 2015.

OTHER DIRECTORS

ALISON (CA) DEANS

BA, MBA, GAICD, age 48 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Alison Deans was appointed as a Director of IAG on 1 February 2013. She is a member of IAG's People and Remuneration Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Alison was formerly CEO of netus, a technology based investment company focused on building consumer web businesses in Australia and acquired by Fairfax in 2012. She has over 20 years experience in general management and strategy consulting roles focused on e-business and media/entertainment in Australia.

She was appointed as an Independent Non-Executive Director of Westpac Banking Corporation in April 2014, of Kikki-K in October 2014 and of Cochlear Limited in January 2015. Alison has also held Chief Executive roles at eBay Australia and New Zealand, eCorp and Hoyts Cinemas.

She is a recipient of the Centenary Medal for services to the business community.

Directorships of other listed companies held in the past three years:

- Cochlear Limited, since 1 January 2015; and
- Westpac Banking Corporation, since 1 April 2014.

HUGH (HA) FLETCHER

BSc/BCom, MCom (Hons), MBA, age 68 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Hugh Fletcher was appointed as a Director of IAG on 1 September 2007 and Chairman of IAG New Zealand Limited on 1 September 2003. He is a member of IAG's Audit Committee, Risk Committee and Nomination Committee.

Hugh was formerly Chairman (and Independent Director since December 1998) of New Zealand Insurance Limited and CGNU Australia.

OTHER BUSINESS AND MARKET EXPERIENCE

Hugh is a Non-Executive Director of Rubicon Limited and Vector Limited and a trustee of The University of Auckland Foundation. Hugh was formerly Chief Executive Officer of Fletcher Challenge Limited, a New Zealand headquartered corporation with assets in the global building, energy, forestry and paper industries. He retired from an Executive position in December 1997 after 28 years as an Executive, 11 of which he served as Chief Executive.

Hugh is a former Deputy Chairman of the Reserve Bank of New Zealand, former member of the Asia Pacific Advisory Committee of the New York Stock Exchange, former Non-Executive Director of Fletcher Building Limited, and has been involved as an Executive and Non-Executive Director in many countries in Asia, including China, India, Singapore, Indonesia, Malaysia and Thailand.

Directorships of other listed companies held in the past three years:

- IAG Finance (New Zealand) Limited (a part of the Group), since 31 August 2008;
- Vector Limited, since 25 May 2007; and
- Rubicon Limited, since 23 March 2001.

RAYMOND (SKR) LIM

BEcon, BA, LLM, age 57 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Raymond Lim was appointed as a Director of IAG on 1 February 2013. He is a member of IAG's People and Remuneration Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Raymond is Chairman of APS Asset Management and Senior Advisor to the Swire Group. He also serves on several Boards including the GIC Pte Ltd, Hong Leong Finance and Raffles Medical Group. He is an adjunct professor at the Lee Kuan School of Public Policy, National University of Singapore and the Nanyang Centre for Public Administration, Nanyang Technological University, Singapore.

Raymond is a former Cabinet minister in the Singapore Government (2001-2011). Prior to that, he held various senior positions in the financial industry including as a Managing Director of Temasek Holdings, Chief Executive Officer of DBS Vickers Securities and Chief Economist of ABN AMRO Asia Securities.

He is a Rhodes Scholar and has degrees in economics and law from the universities of Adelaide, Oxford and Cambridge.

Directorships of other listed companies held in the past three years:

- None.

JONATHAN (JON) (JB) NICHOLSON

BA, age 60 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Jon Nicholson was appointed as a Director of IAG on 1 September 2015. He is a member of IAG's Audit Committee, Risk Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Jon is Non-Executive Chairman of Westpac Foundation, a trustee of Westpac Bicentennial Foundation and a Non-Executive Director of Cape York Partnerships and QuintessenceLabs.

He previously spent eight years with Westpac Banking Corporation, first as Chief Strategy Officer and later as Enterprise Executive. He retired from Westpac in 2014.

Jon's executive career has included senior roles with a variety of financial and corporate institutions, including the Boston Consulting Group. He also held various roles with the Australian government, including Senior Private Secretary to the Prime Minister of Australia (Bob Hawke) and senior positions in the Department of the Prime Minister and Cabinet.

Directorships of other listed companies held in the past three years:

- None.

TOM (TW) POCKETT

CA, BCom, age 58 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Tom Pockett was appointed as a Director of IAG, effective 1 January 2015. He is Chair of IAG's Audit Committee and a member of the Risk Committee and the Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Tom is a Non-Executive Director of Stockland Corporation Limited, a Director of Sunnyfield Independence Association and of O'Connell St Associates. He previously spent over 11 years as Chief Financial Officer and over seven years as Finance Director with Woolworths Limited, and retired from these roles in February 2014 and July 2014 respectively. Tom was a former Director of ALH Group Pty Ltd from 2014 to 2016, Hydrox Holdings Pty Ltd from 2014 to 2016 and Chairman and Director of The Quantium Group Holdings Pty Limited from 2014 to 2016. Tom has also held senior finance roles at the Commonwealth Bank, Lend Lease Corporation and Deloitte.

Directorships of other listed companies held in the past three years:

- Stockland Corporation Limited, since 1 September 2014; and
- Woolworths Limited (2006-2014).

PHILIP (PJ) TWYMAN

BSc, MBA, FAICD, age 72 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Philip Twyman was appointed as a Director of IAG on 9 July 2008. He is Chair of IAG's Risk Committee, and a member of the Audit Committee and the Nomination Committee.

Philip was formerly Group Executive Director of Aviva plc, one of the world's largest insurance groups, based in London. He has also been Chairman of Morley Fund Management and Chief Financial Officer of General Accident plc, Aviva plc and AMP Group. While at Aviva plc and its predecessor groups between 1996 and 2004, Philip had executive responsibility for the Group's insurance operations in Asia, Australia, Europe and North America. He has also been responsible for starting and nurturing new insurance businesses in China, India, Indonesia and Hong Kong. Overall, Philip has had over 20 years of both board and executive level general insurance experience.

Philip is on the Boards of Swiss Re in Australia. He was formerly an Independent Non-Executive Director of Perpetual Limited from 2004 to 2012, Medibank Private Limited from 2007 to 2012 and Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Limited from April 2007 to July 2008.

OTHER BUSINESS AND MARKET EXPERIENCE

Philip is also on the Board of Tokio Marine Management (Australasia) Pty Ltd.

Directorships of other listed companies held in the past three years:

- None.

DIRECTORS WHO CEASED DURING THE FINANCIAL YEAR

- Brian Schwartz was a Director from 1 January 2005 to 31 March 2016;
- Michael Wilkins was a Director from 26 November 2007 to 16 November 2015; and
- Yasmin Allen was a Director from 10 November 2004 to 30 September 2015.

SECRETARY OF INSURANCE AUSTRALIA GROUP LIMITED

CHRIS (CJ) BERTUCH

BEc, LLB, LLM

Chris Bertuch was appointed Group General Counsel & Company Secretary on 11 May 2011. Prior to joining IAG, he held the position of Group General Counsel & Company Secretary at CSR Limited. Chris joined CSR as a corporate lawyer in 1993 and prior to that was a partner in the law firm Gadens Lawyers in Sydney. He brings to IAG more than 28 years of experience in corporate, commercial and trade practices law and dispute resolution. Chris has also completed the Advanced Management Program at Harvard Business School.

MEETINGS OF DIRECTORS

The number of meetings each Director was eligible to attend and actually attended during the financial year is summarised below:

DIRECTOR	BOARD OF DIRECTORS				PEOPLE AND REMUNERATION COMMITTEE		AUDIT COMMITTEE		RISK COMMITTEE		BOARD SUB COMMITTEE		NOMINATION COMMITTEE	
	Scheduled		Unscheduled											
Total number of meetings held		8		7		4		4		4		3		2
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Elizabeth Bryan[a]	**8**	**8**	**7**	**6**	**4**	**4**	-	-	**3**	**3**	**1**	**1**	**2**	**2**
Yasmin Allen[b]	**3**	**3**	**2**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	-	-	-	-
Alison Deans[c]	**8**	**8**	**7**	**7**	**3**	**3**	**1**	**1**	**1**	**1**	-	-	-	-
Hugh Fletcher[d]	**8**	**8**	**7**	**7**	-	-	**4**	**4**	**4**	**4**	**2**	**2**	-	-
Peter Harmer[e]	**4**	**4**	**3**	**3**	-	-	-	-	-	-	**1**	**1**	-	-
Raymond Lim[d]	**8**	**8**	**7**	**5**	**4**	**4**	-	-	-	-	-	-	-	-
Jonathan Nicholson[f]	**6**	**6**	**7**	**7**	-	-	**3**	**2**	**3**	**3**	-	-	-	-
Tom Pockett[d]	**8**	**8**	**7**	**7**	-	-	**4**	**4**	**4**	**4**	-	-	-	-
Brian Schwartz[g]	**6**	**6**	**6**	**6**	**3**	**3**	-	-	-	-	**3**	**3**	**1**	**1**
Philip Twyman	**8**	**8**	**7**	**7**	-	-	**4**	**4**	**4**	**4**	-	-	**2**	**2**
Michael Wilkins[h]	**4**	**4**	**3**	**3**	-	-	-	-	-	-	**2**	**2**	-	-

(a) Elizabeth Bryan was appointed to the Risk Committee on 18 September 2015.

(b) Yasmin Allen was a member of the Board of Directors until 30 September 2015, the People and Remuneration Committee and Audit Committee until 30 September 2015 and the Risk Committee until 18 September 2015.

(c) Alison Deans was appointed to the People and Remuneration Committee on 18 September 2015 and the Nomination Committee on 5 April 2016. She was a member of the Audit Committee and Risk Committee until 18 September 2015.

(d) Hugh Fletcher, Raymond Lim and Tom Pockett were all appointed to the Nomination Committee on 5 April 2016.

(e) Peter Harmer was appointed to the Board on 16 November 2015 and the Nomination Committee on 5 April 2016.

(f) Jonathan Nicholson was appointed to the Board on 1 September 2015, the Audit Committee and Risk Committee on 18 September 2015, and the Nomination Committee on 5 April 2016.

(g) Brian Schwartz was a member of the Board, People and Remuneration Committee and Nomination Committee until 31 March 2016.

(h) Michael Wilkins was a member of the Board until 16 November 2015.

PRINCIPAL ACTIVITY

The principal continuing activity of the Group is the underwriting of general insurance and related corporate services and investing activities. The Group reports its financial information under the following business divisions:

DIVISION	OVERVIEW	PRODUCTS
Consumer Division (Australia) 51% of Group gross written premium (GWP)	Consumer insurance products are sold in Australia through branches, call centres, the internet and representatives, under the following brands: ■ NRMA Insurance in NSW, ACT, Queensland and Tasmania; ■ SGIO in Western Australia; ■ SGIC in South Australia; ■ RACV in Victoria, via a distribution agreement with RACV; ■ Coles Insurance nationally, via a distribution agreement with Coles; and ■ CGU through affinity and financial institution partnerships and broker and agent channels. Consumer Division also includes travel insurance, life insurance, income protection and funeral products which are underwritten by third parties.	Short tail insurance ■ Motor vehicle ■ Home and contents ■ Lifestyle and leisure, such as boat, veteran and classic car and caravan Long tail insurance ■ Compulsory Third Party (motor injury liability)
Business Division (Australia) 26% of Group GWP	Business insurance products are sold in Australia through a network of around 2,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. Business Division is a leading provider of business and farm insurance, and also provides workers' compensation services in every state and territory, except South Australia and Queensland. Business Division operates across Australia under the following brands: ■ CGU Insurance; ■ Swann Insurance; ■ WFI; ■ NRMA Insurance; ■ RACV; ■ SGIC; and ■ SGIO.	Short tail insurance ■ Business packages ■ Farm and crop ■ Commercial property ■ Construction and engineering ■ Niche, such as consumer credit ■ Commercial motor and fleet motor ■ Marine Long tail insurance ■ Workers' compensation ■ Professional indemnity ■ Directors' and officers' ■ Public and products liability
New Zealand 19% of Group GWP	The New Zealand business is the leading general insurance provider in the country in both the direct and broker/agent channels. Insurance products are provided directly to customers primarily under the State and AMI brands, and indirectly through insurance brokers and agents, under the NZI and Lumley Insurance brands. Personal products and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.	Short tail insurance ■ Motor vehicle ■ Home and contents ■ Commercial property, motor and fleet motor ■ Construction and engineering ■ Niche, such as pleasure craft, boat, caravan and travel ■ Rural and horticultural ■ Marine Long tail insurance ■ Personal liability ■ Commercial liability
Asia 4% of Group GWP	The Group has interests in five general insurance businesses in Asia, which comprises primarily the direct and intermediated insurance business underwritten through subsidiaries in Thailand, Vietnam and Indonesia and the share of the operating result from the investment in associates in Malaysia and India. The businesses offer personal and commercial insurance products through local brands.	
Corporate and other	Corporate and other comprises other activities, including corporate services, capital management activity, placement of the Group's reinsurance program, inward reinsurance from associates and all investment activities.	

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

IAG has delivered a sound operating performance in the current year. This was achieved in an environment of challenging operating conditions in IAG's core markets in Australia and New Zealand. Pressures on profitability were particularly apparent in commercial markets, from a prolongation of soft conditions, although growing ability to increase rates was evident, particularly in Australia, as the year progressed. Long tail Compulsory Third Party (CTP) profitability (notably in NSW) remained under pressure from the higher frequency of minor severity, legally represented claims.

IAG's short tail personal lines franchises in Australia and New Zealand continued to report strong profitability and sound growth, as they successfully responded to evolving customer behaviours and needs via a full range of customer propositions complemented by digital and new product initiatives. Moderate rate increases have countered modest underlying claims inflation.

Benefits from the integration of the former Wesfarmers business and the implementation of a revised Australian operating model were realised in line with plan, with a pre-tax run rate of $180 million of non-reinsurance benefits met by the conclusion of the financial year.

The contribution from Asia increased, with strong performances from the established businesses in Thailand and Malaysia. Proportional GWP registered growth in excess of 7%. Asia remains an important long term growth option for the Group.

The profit and loss for the current year is inclusive of the first time effects of the whole-of-account quota share and a run-off portfolio reinsurance protection arrangement. Further details of these transactions are outlined below:

Berkshire Hathaway (BH) Quota Share

IAG entered into a 20% whole-of-account quota share arrangement with BH, commencing 1 July 2015 for a minimum term of ten years. This underpins the strategic relationship with BH announced in June 2015. Since its inception, this agreement has:

- reduced IAG's earnings volatility, via the percentage-based fee BH pays to access IAG's strong core franchise;
- enhanced IAG's underlying margin by approximately 250 basis points;
- lowered IAG's regulatory capital requirement by about $400 million; and
- promoted new and complementary business opportunities.

Run-off portfolio reinsurance protection

During the second half of the financial year, the Group announced an innovative reinsurance transaction that materially mitigates its exposure to the Canterbury earthquakes and asbestos. This comprises:

- an adverse development cover (ADC) that provides NZ$600 million of protection in excess of NZ$4.4 billion for the February 2011 Canterbury earthquake event. After inclusion of the ADC and applicable risk margin, the February 2011 event is now covered to the extent of NZ$5 billion; and
- a reinsurance arrangement in respect of liability and workers' compensation risks with exposure to asbestos. These primarily relate to policies written by the Australian Business Division in the 1970s and 1980s.

The combination of the overall premium paid and the reinsurance from the asbestos portfolio has resulted in a small net loss, which is recognised in the 'Net corporate expense' line in the management reported results.

Net profit after tax

The Group's net profit after tax for the financial year was $702 million (2015-$830 million). After adjusting for non-controlling interests, the net profit attributable to shareholders of the Company was $625 million (2015-$728 million). This included:

- a significantly lower contribution from investment income on shareholders' funds, which reflected relatively weak equity market returns;
- a $139 million post-tax charge in respect of accelerated amortisation and impairment of capitalised software assets discussed in further detail in the section below; and
- an approximately $100 million increase in tax expense, following a significantly reduced favourable effect from earthquake related reinsurance recoveries in a lower tax jurisdiction.

Total Gross Written Premium (GWP) of $11,367 million represented a 0.6% reduction compared to the prior year and was consistent with IAG's 'relatively flat' full year guidance. This outcome was characterised by:

- sound growth in short tail personal lines from a mixture of rate and volume, in both Australia and New Zealand;
- flat long tail personal lines GWP in Australia, as volume reduction was offset by necessary rate increases to address claim frequency issues;
- lower commercial lines GWP, driven by lower volumes from the strict application of underwriting disciplines and the effect of lower average rates in soft market conditions; and
- sound growth in Asia, principally in Thailand, which was amplified by a favourable foreign exchange translation effect.

The discussion of operating performance in this section is presented on a management reported basis unless otherwise stated. Management reported results are non-IFRS financial information and are not directly comparable to the statutory results presented in other parts of this Annual Report.

There are two elements of the statutory results for the year that are not expected to be a feature of the Group's future sustainable earnings profile. As a result and to ensure consistency of the reporting of key insurance measures and metrics, these items have been shown in the 'Net corporate expense' line in the management reported view of the current year results. This view is consistent with the approach adopted in IAG's Investor Report.

Reconciliation between the statutory results (IFRS) and the management reported (non-IFRS) results is presented below:

CONSOLIDATED	STATUTORY RESULTS (IFRS)	RUN-OFF PORTFOLIO REINSURANCE PROTECTION	CAPITALISED SOFTWARE ACCELERATED AMORTISATION AND IMPAIRMENT	MANAGEMENT RESULTS (NON-IFRS PER INVESTOR REPORT)
	$m	$m	$m	$m
Gross earned premium	11,411	-	-	11,411
Outwards reinsurance premium expense	(3,883)	700	-	(3,183)
Net earned premium	7,528	700	-	8,228
Net claims expense	(4,702)	(695)	-	(5,397)
Net commission and underwriting expense	(2,116)	-	-	(2,116)
Underwriting profit	710	5	-	715
Net investment income on assets backing insurance liabilities	463	-	-	463
Insurance profit before capitalised software accelerated amortisation and impairment	1,173	5	-	1,178
Capitalised software accelerated amortisation and impairment	(198)	-	198	-
Insurance profit	975	5	198	1,178
Net corporate expense	(18)	(5)	(198)	(221)
Net other operating income/(expenses)	(37)	-	-	(37)
Profit before income tax	920	-	-	920

Outlined below are the adjustments to the reported underwriting and insurance results:

- Run-off portfolio reinsurance protection – as discussed above; and
- Accelerated amortisation and impairment of capitalised software – during the current financial year, a review has been undertaken of the Group's capitalised software platforms in the context of both the growing impact of digital disruption and IAG's commencement of a programme that will significantly simplify its information technology systems in future years. As a result of this review, a reduction in the carrying value of capitalised software expenditure of $198 million pre-tax (2015-nil) has been recognised. The assets have a lower recoverable amount reflecting the rapid changes in technology and the reduced useful life of software assets. The expenses have been recognised within the 'Net corporate expense' line in the management reported results. To aid transparency, this item has been separately identified on the face of the statement of comprehensive income which is provided on page 37 of the Annual Report. The change in capitalised software treatment has no impact on IAG's regulatory capital ratios, as capitalised software is already deducted from regulatory capital. This item has been excluded from cash earnings for determination of the dividend, but included when determining executive long term incentive entitlements.

Unless otherwise stated, the insurance and underwriting profits commentary provided below refers to the Group's management reported results and is non-IFRS financial information.

The guidance provided in Australian Securities and Investments Commission Regulatory Guide 230 'Disclosing non-IFRS financial information' ('RG 230') has been followed when presenting the management reported results.

Insurance margin

IAG's current year management reported insurance profit of $1,178 million (2015-$1,103 million) was nearly 7% higher than the prior year. Alongside the positive BH quota share effect, the higher reported insurance margin of 14.3% (2015-10.7%) included:

- higher than expected prior period reserve releases of $207 million, equivalent to 2.5% of Net Earned Premium (NEP), up from $167 million (1.6% of NEP) in the prior year;
- net natural peril claim costs of $659 million, which exceeded allowance by $59 million following a higher than originally anticipated loss from the east coast low event in June 2016. This compares to the $1,048 million of natural perils claims costs incurred in the prior year; and
- an adverse credit spread impact of $37 million, compared to a favourable effect of $33 million in the prior year.

The prior period reserve release outcome comprised two distinct and partially offsetting elements:

- higher than expected releases from Australian long tail classes, principally CTP; and
- a NZ$150 million increase to risk margin in respect of the February 2011 Canterbury earthquake event, as recognised in the first half of the 2016 financial year.

Underlying margin

IAG continued to demonstrate relatively strong underlying profitability in the current year. Aside from the quota share impact, the underlying margin of 14.0% (2015-13.1%) contained:

- strong profitability in short tail personal lines in Australia and New Zealand, but with some adverse impact from increased claim frequency;
- pressure on returns in the equivalent commercial lines markets, reflecting lower volumes and the cumulative effect of past rate reductions;
- ongoing pressure on NSW CTP profitability from elevated claim frequency levels; and
- lower like-for-like expenses, as further benefits from the Wesfarmers integration and revised Australian operating model were realised.

IAG defines its underlying margin as the management reported insurance margin adjusted for:

- net natural peril claim costs less the related allowance for the period;
- reserve releases in excess of 1% of NEP; and
- credit spread movements.

	2016		2015	
INSURANCE MARGIN	**$m**	**%**	$m	%
Management reported insurance margin*	**1,178**	**14.3**	1,103	10.7
Net natural peril claim costs less allowance	**59**	**0.7**	348	3.3
Reserve releases in excess of 1% of NEP	**(125)**	**(1.5)**	(64)	(0.6)
Credit spread movements	**37**	**0.5**	(33)	(0.3)
Underlying insurance margin	**1,149**	**14.0**	1,354	13.1

* Management reported insurance margin is the insurance profit as a percentage of NEP as disclosed in the Investor Report. Based on the statutory results, the equivalent statutory insurance margin for the current year is 13.0%.

Similar to the management reported results, the underlying insurance margin is a non-IFRS measure that is designed to present, in the opinion of management, the results from ongoing operating activities in a way that best and most appropriately reflects the Group's underlying performance.

Tax Expense

IAG reported a tax expense of $218 million (2015-$119 million), representing an effective tax rate of 23.7% (2015-12.5%). For 2016, while markedly higher than the prior year, this lower than normal tax rate was largely driven by the favourable resolution of a tax audit associated with IAG's former UK operations. The low tax rate for the prior year was driven by reinsurance recoveries relating to the 2011 Canterbury earthquake events in New Zealand, which were recorded by IAG's reinsurance captive in Singapore.

Other contributory elements reconciling the effective tax rate to the prevailing Australian corporate rate of 30% are:

- differences in tax rates applicable to IAG's foreign operations, principally in New Zealand, Singapore and Malaysia; and
- franking credits generated from IAG's investment portfolio.

It is IAG's expectation that the effective tax rate will revert to a more normal (high 20's) level in future periods.

Investment income on shareholders' funds

Investment income on shareholders' funds was a profit of $113 million, a decrease of over 51% on the profit of $231 million in the corresponding prior year. This included a relatively weak local equity market performance in the current year, with the broader Australian index (S&P ASX200 Accumulation) delivering a return of 0.6% (2015-5.7%). At 30 June 2016 the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 48% (2015-41%).

A. CONSUMER DIVISION (AUSTRALIA)

The Consumer Division accounted for 51% of Group GWP and produced a strong underlying margin of 16%. Long tail CTP contributed flat GWP, while its profitability suffered from current accident year claim frequency issues in the NSW market.

I. Premiums

The Consumer Division's GWP increased by 3.3% to $5,801 million in the current year (2015-$5,614 million), driven by growth in short tail home and motor lines. CTP GWP was relatively flat. Short tail home and motor lines represented approximately 85% of divisional GWP, and grew by 4%. Short tail premium growth was dominated by rate movements, in response to higher claim frequency and repair costs. This was augmented by volume gains in motor, while home volumes were reasonably flat.

The larger established brands generated sound growth in what remained a very competitive environment. While coming off a much smaller base, Coles Insurance continued to record strong double digit growth. The current year also included a small initial contribution from the underwriting of Steadfast personal lines, secured as part of the BH agreement.

II. Insurance profit

The Consumer Division reported an insurance profit of $805 million, compared to $788 million in the prior year. This equates to a higher reported insurance margin of 19.8% (2015-15.9%), which included:

- enhancement from the BH quota share;
- the benefit of higher reserve releases;
- a reduced negative effect from net natural peril claim costs exceeding the associated allowance; and
- absorption of an adverse credit spread movement of $40 million compared to the prior year.

B. BUSINESS DIVISION (AUSTRALIA)

The Business Division represented 26% of Group GWP. Strict adherence to underwriting disciplines contributed to lower volumes, while the impact of lower average rates diminished from the end of the first half as modest rate rises were progressively implemented. A slightly lower underlying margin reflected pressures on profitability that were not fully offset by the realisation of further synergies from the Wesfarmers integration and the favourable quota share effect.

I. Premiums

The Business Division reported GWP of $2,979 million, representing a contraction of 6.7% compared to the prior financial year (2015-$3,192 million) due to tough commercial market conditions. Retention levels were consistent through the year across most portfolios, with overall GWP reflecting lower average rates, reduced new business volumes, strong competition in property and strata, tough market conditions in workers' compensation and specific business transfers.

In the face of the prolonged soft market conditions, the Business Division has maintained its strict underwriting discipline through targeted portfolio reviews. The division has also consolidated its leading position in the Australian commercial insurance market, with retention levels applicable to the acquired former Wesfarmers business remaining within the expected range.

II. Insurance profit

The Business Division reported a higher insurance profit of $230 million (2015-$93 million). This equates to a reported insurance margin of 10.0% (2015-3.0%).

The higher reported margin reflects the net effect of:

- enhancement from the BH quota share;
- lower net natural peril claim costs;
- higher prior period reserve releases; and
- an adverse credit spread movement of $30 million.

III. Fee based business

Business Division generates fee income by acting as an agent under both the NSW and Victorian workers' compensation schemes that are underwritten by the respective State governments. A secondary source of fee income is Business Division's interest in authorised representative brokers, via its ownership of National Adviser Services (NAS). Net income from fee based operations was $4 million, compared to $16 million in the previous financial year. The overall reduction partly reflects a revision to the remuneration model in relation to the Victorian scheme.

C. NEW ZEALAND

New Zealand represented 19% of Group GWP and continued to perform well, registering a strong underlying margin of 16.9%, despite increased pressure on the commercial side of its business. The modest premium growth in direct personal lines was more than offset by the impact of tougher market conditions in the commercial segment.

I. Premiums

New Zealand's GWP of $2,182 million represented a decrease of 3.7% over the prior year (2015-$2,267 million). The local currency GWP fell by 2.6% from the combination of:

- softer premium rates and volume loss in commercial lines, in the face of increased industry capacity; and
- partially offsetting GWP growth in the private motor vehicle portfolio from a combination of volume and rate increases.

II. Insurance profit

The New Zealand business produced a lower insurance profit of $135 million in the current year (2015-$216 million). This equates to a reported insurance margin of 8.6% (2015-10.8%) and reflects the combination of:

- enhancement from the BH quota share;
- the NZ$150 million increase to risk margin for the February 2011 earthquake event, as recognised in the first half of the current year;
- increased competition in the commercial lines market, where a continued focus on pricing and underwriting disciplines remained a priority; and
- the realisation of benefits from the Lumley integration, disciplined cost management and continued focus on expense savings.

III. Canterbury Rebuild

At 30 June 2016 the New Zealand business had completed over NZ$5.7 billion of claim settlements in respect of the Canterbury earthquakes. Approximately 93% of all claims by number had been fully settled at that date. IAG continued to receive new claims from the Earthquake Commission (EQC) over the course of the current year, as they exceeded the EQC cap of NZ$100,000 (plus GST). It is expected that the rebuild component will be largely complete by the end of calendar year 2016. Certain shared properties, newly received over-cap claims from the EQC and claims subject to dispute or litigation may take longer to settle.

As referred above, the Group now has reinsurance protection in place that effectively provides it with cover up to NZ$5 billion in relation to the February 2011 event. This compares to the current reserved position of NZ$4.4 billion, including risk margin.

D. ASIA

Asia represents an important source of long term growth for IAG, with a presence established in five markets: Thailand, Malaysia, India, Vietnam and Indonesia. During the year, IAG determined not to pursue further investment in China. As such, the interest held in Bohai Property Insurance Company Ltd (Bohai) has been transferred to IAG's shareholders' funds investment portfolio.

I. Divisional result

The division contributed a total profit of $26 million, including shares of associates and allocated costs. This compares to a $21 million profit in the prior financial year, and comprises:

- sound underlying performances by the established businesses in Thailand and Malaysia, where combined profitability increased by over 16% compared to the prior year;
- higher, but still relatively modest, losses from the developing businesses, comprising a similar loss in India compared to the prior year, the absence of earnings from the loan protection run-off portfolio in Vietnam, which consequently moved to a small overall loss and the first time inclusion of a full year's result from Indonesia, which posted a small loss; and
- modestly lower regional support and development costs of $31 million (2015-$32 million).

II. Controlled entities
GWP from the Group's controlled entities was $386 million, which was an increase of over 9% on the corresponding prior financial year (2015-$353 million), within this:

- the Thai business (Safety Insurance) reported an increase in GWP of 8% to $362 million from $334 million for the prior year, comprising local currency growth of 3% and a favourable foreign exchange translation effect. The GWP movement reflects the combined effect of increased focus on the used car market, improved renewal retention, introduction of a new carbon emission excise tax which adversely affected new car volumes and a softening of rates in the commercial motor and property segments;
- AAA Assurance in Vietnam recorded GWP equivalent to $17 million (2015-$18 million); and
- Parolamas in Indonesia, which was consolidated by IAG from May 2015, recorded GWP equivalent to $7 million (2015-$1 million).

The insurance profit delivered by the controlled entities for the current year was $21 million (2015-$17 million) excluding allocated costs. Within this:

- the Thai business reported an insurance profit of $23 million, compared to $15 million in the corresponding prior year. The increase reflects the combined effects of strong discipline in portfolio management and underwriting controls, the relatively benign claims environment, higher reinsurance-related recoveries and prior period reserve releases and weaker investment income on technical reserves;
- AAA Assurance contributed an insurance loss of $1 million (2015-$2 million profit). The weaker result reflected an increase in the loss ratio in line with the higher mix of motor business and a significantly reduced loan protection business which carries a low expected loss ratio and a higher expense ratio due to increased acquisition costs; and
- Parolamas in Indonesia contributed an insurance loss of $1 million.

III. Share of net profit/(loss) of associates
The Group's share of associates was a profit of $36 million (2015-$36 million), excluding allocated costs and before amortisation. This result includes AmGeneral Holdings Berhad (AmGeneral) in Malaysia and SBI General Insurance Company Limited (SBI General) in India. AmGeneral accounts for the majority of the Group's share of net profit from associates. IAG's share of AmGeneral's profit for the current year increased marginally to $40 million (2015-$39 million) and reflected a combined effect of favourable prior period reserve releases, adverse impact of non-claimable input tax expenses associated with GST implementation and higher business acquisition costs reflecting intense market competition.

E. CORPORATE AND OTHER
A pre-tax loss of $282 million was reported, which compares to a loss of $189 million in the corresponding prior year. This primarily reflects the $198 million non-cash accelerated amortisation and impairment charge on capitalised software assets as referenced above.

Further details on the operating segments are set out in note 1.3 segment reporting within the Financial Statements.

REVIEW OF FINANCIAL CONDITION
A. FINANCIAL POSITION
The total assets of the Group as at 30 June 2016 were $30,030 million compared to $31,402 million at 30 June 2015. Movements within the overall decrease of $1,372 million include:

- a decrease in investments of $2,589 million from the funds outflow associated with the run-off portfolio reinsurance protection placement, net settlements on the BH quota share, payment of the 2015 final dividend and 2016 interim and special dividends, claim payments from natural peril events and New Zealand earthquake claims partially offset by sound operating performance for the year and the net proceeds received from the issue of the NZD convertible notes;
- reinsurance and other recoveries on outstanding claims has increased by $976 million, predominantly relating to the run-off portfolio reinsurance protection placement and recoveries relating to the BH Quota share; and
- a decrease in goodwill and intangible assets of $151 million primarily as a result of the reduction in the carrying value of capitalised software expenditure following a review of the Group's software platforms as described in note 5.1 goodwill and intangible assets.

The total liabilities of the Group as at 30 June 2016 were $23,245 million compared to $24,384 million at 30 June 2015. The decrease in liabilities of $1,139 million is mainly attributable to:

- a decrease in outstanding claims liability of $946 million predominantly due to claim settlements relating to the prior financial year natural peril events and the New Zealand earthquakes; and
- an increase in interest bearing liabilities relating to the issuance of NZ$350 million of unsecured subordinated convertible notes in June 2016; partially offset by the take up on the re-investment offer in respect of existing 2011 unsecured subordinated bond holders.

IAG shareholders' equity (excluding non controlling interests) decreased from $7,018 million at 30 June 2015 to $6,785 million at 30 June 2016, reflecting the combined effect of:

- a sound earnings performance for the year, resulting in a net profit attributable to shareholders of $625 million; and
- payment of the final 2015 dividend and 2016 interim and special dividends totalling $948 million.

B. CASH FROM OPERATIONS

The net cash outflows from operating activities for the year ended 30 June 2016 were $1,946 million compared to net cash inflows of $698 million for the prior corresponding year. The movement is mainly attributable to the net effect of:

- an increase in claim costs paid of $711 million, mainly attributable to the settlement of various natural peril events that occurred in the 2015 financial year. The overall quantum of natural peril losses in that year was unusually high;
- an increase in outwards reinsurance premium expense paid of $2,602 million which predominantly relates to the BH quota share and the run-off portfolio reinsurance protection placement; partially offset by
- an increase in reinsurance and other recoveries received of $232 million, primarily attributable to the BH quota share; and
- an increase in other operating receipts of $698 million in respect of cost recoveries under the BH quota share.

C. INVESTMENTS

The Group's investments totalled $12.9 billion as at 30 June 2016, excluding investments held in joint ventures and associates, with over 67% represented by the technical reserves portfolio. Total investments at 30 June 2015 were $15.5 billion. Movements of note since 30 June 2015 are:

- reduced technical reserves as the 20% BH quota share serves to progressively reduce related insurance liabilities;
- increased funds reflecting the sound operating performance of the Group during the year; and
- significant dividend payments in October 2015 ($389 million) and March 2016 ($559 million).

As at 30 June 2016, the Group's overall investment allocation remains conservatively positioned and the credit quality of the investment book remains strong, with 77% (2015-81%) of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Technical reserves as at 30 June 2016 accounted for $8.7 billion (2015-$11.0 billion) of the Group's investments, and were invested in fixed interest and cash.

The Group's allocation to growth assets was 48% of the $4.2 billion of shareholders' funds at 30 June 2016 (2015-41%). Included within the Group's allocation to growth assets are Australian and international equities and alternative investments.

D. INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at $1,962 million at 30 June 2016, compared to $1,762 million at 30 June 2015. The net increase of $200 million is explained by:

- the issue of NZ$350m of unsecured subordinated convertible notes in June 2016; and
- a NZ$138 million reduction in outstanding 2011 subordinated fixed rate bonds, following acceptance of a re-investment offer in respect of the new issue.

E. CAPITAL MIX

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. It is IAG's intention to have a capital mix in the following ranges over the longer term:

- ordinary equity (net of goodwill and intangibles) 60-70%; and
- debt and hybrids 30-40%.

At 30 June 2016, the Group's capital mix was within the targeted range, with debt and hybrids representing 36.8% (2015-33.8%) of total tangible capitalisation.

F. CAPITAL MANAGEMENT

The Group remains strongly capitalised under APRA's Prudential Standards, with regulatory capital of $4,619 million at 30 June 2016 (2015-$4,785 million). The Group has set the following related targeted benchmarks:

- a total capital position equivalent to 1.4 to 1.6 times the Prescribed Capital Amount (PCA), compared to a regulatory requirement of 1.0 times; and
- a Common Equity Tier 1 (CET1) target range of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

At 30 June 2016, the Group had a PCA multiple of 1.72 (2015-1.70) and a CET1 multiple of 1.06 (2015-1.14).

Further capital management details are set out in note 3.1 risk and capital management within the Financial Statements.

STRATEGY

A. STRATEGIC PRIORITIES

- At IAG, our purpose is to make your world a safer place.
- IAG's opportunity is to embrace innovation: The way we live our lives is changing at a rapid pace driven by new technologies and shifting demographic trends. This means our customers are faced with new challenges and opportunities every day. IAG will help them navigate through this journey and present them with innovation to make their lives safer and better. IAG will embrace the change and participate in making things better for our customers, whether in Australia, New Zealand or Asia.
- Our objective is to deliver world class customer experiences: All the elements of our strategy are driven by the customer and their needs – to make their lives easier and safer, to improve their interactions with IAG and make the company as successful as possible to reinvest in our leadership position.

IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves across Australia, New Zealand or Asia, IAG exists to 'make your world a safer place'. IAG believes its purpose will enable it to become a more sustainable business over the long term, and deliver stronger and more consistent returns for its shareholders.

Strategic framework
To fulfil its purpose, IAG is focusing on two key strategic themes:
- Leading the change that its customers need and demand. IAG is embracing innovation, to help customers navigate through change to make their lives safer and better. This has the company's customers at its core, and aims to make the experiences they have with IAG world class, through technology and smart ideas, at each individual interaction.
- Fuelling the business so that it can deliver on these opportunities. To fuel the investments in its continued leadership, IAG needs to be leaner and more responsive. This involves tackling necessary changes to the way IAG operates – simplifying processes and systems, and optimising resources, to be more efficient.

B. BUSINESS RISK AND RISK MANAGEMENT
Managing risk is central to the sustainability of IAG's business, its purpose and delivery of value to shareholders. IAG uses an enterprise approach to risk and its risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture. The Risk Management Strategy (RMS) is reviewed annually or as required by the Risk Committee (RC) before being recommended for approval by the Board. IAG's risk and governance function provides regular reports to the RC on the operation of IAG's risk management framework, the status of key risks, risk and compliance incidents and risk framework changes. IAG's Internal Audit function provides reports to the Audit Committee (AC) on significant audit findings and other audit related matters.

Roles and responsibilities of the Board and its standing committees, the AC, the RC, the People and Remuneration Committee (PARC) and the Nominations Committee, are set out in the Corporate Governance section of the IAG website.

The Group is exposed to multiple risks relating to the conduct of its general insurance business. The following risks noted below are not meant to represent an exhaustive list, but the risks faced by the Group that have been identified in IAG's RMS:
- strategic risk: the risk of not achieving corporate or strategic goals;
- insurance risk: the risk that the Group is exposed to financial loss, as a result of inadequate or inappropriate underwriting, inadequate or inappropriate product pricing, unforeseen, unknown or unintended liabilities that may eventuate, inadequate or inappropriate claims management including reserving or insurance concentration risk (i.e. by locality, segment or distribution);
- reinsurance risk: the risk of insufficient or inappropriate reinsurance coverage, inadequate underwriting and pricing of reinsurance exposures retained by IAG's reinsurance captives, inadequate or inappropriate reinsurance recovery management, reinsurance arrangements not legally binding and reinsurance concentration risk;
- financial risk: the risk of inadequate liquidity, adverse movements in market prices (equities, derivatives, interest rates, foreign exchange, etc) or inappropriate concentration within investment funds, a counterparty failing to meet its obligations and/or inappropriate capital management; and
- operational risk: the risk of loss from inadequate or failed internal processes, people, systems and/or external events.

A disciplined approach to risk management has been adopted and IAG believes this approach provides the greatest long term likelihood of being able to meet the objectives of all stakeholders, including policyholders, lenders, regulators and shareholders.

Detail of the Group's overall risk management framework, which is outlined in the RMS, is set out in note 3.1 risk and capital management within the Financial Statements and in the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance.

C. ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK
As a general insurer that operates in Australia, New Zealand and throughout Asia, IAG is exposed to economic, environmental and social sustainability risks and opportunities. The IAG Board has overarching responsibility for these areas, which are managed under shared value and sustainability. Performance and risk management is formally reported to the Board twice a year, with ad-hoc updates as required. A cross-functional Shared Value Advisory Council (SVAC) was established in 2014 to fulfil the role of a sustainability committee for IAG and provides advice and input to the organisation's approach to shared value, sustainability and broader community activity. The SVAC meets every 2-3 months, is chaired by the Group Executive Office of the CEO, and is comprised of Senior Leaders from across the business, including the Group Executive for People, Performance and Reputation and the Chief Customer Officer.

The Group has in place a shared value framework that guides decision making and ensures value is being created for both the community and IAG. This framework defines eight focus areas that support our commitment to help make communities Safer, Stronger and More Confident. The Group's sustainability performance is managed within this framework and supported by a number of policies and position statements.

IAG is a signatory to a number of voluntary principles-based frameworks which guide the integration of environmental, social and governance (ESG) considerations into our business practices. These include the United Nations Environment Program Finance Initiative (UNEPFI), Principles for Sustainable Insurance (PSI) and Principles for Responsible Investment (PRI). IAG is also a signatory of the Geneva Association's Climate Risk Statement.

Details of the Group's management of Economic, Environmental and Social Sustainability Risk are outlined in Principle 7.4 of the Corporate Governance Statement, which is available on the IAG website. More detail on IAG's shared value and sustainability performance is outlined in the 2016 Annual Review and Sustainability Report, which is available at www.iag.com.au/shared-value.

CORPORATE GOVERNANCE

IAG is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and to create long term value for its shareholders. To achieve this, IAG aspires through its spirit to be closer, braver and faster in all its interactions with customers, partners and shareholders, and actively monitors corporate culture.

IAG's Corporate Governance Statement has been approved by the Board. For the financial year ended 30 June 2016, IAG has complied with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations (3rd edition) and is compliant as at 19 August 2016. Further details on IAG's corporate governance practices and the Corporate Governance Statement are available at www.iag.com.au/about-us/corporate-governance.

OUTLOOK

IAG's GWP growth for the year ended 30 June 2017 is expected to remain relatively flat. The Group's reported margin guidance for the year ended 30 June 2017 is expected to be in the range of 12.5-14.5%. Underlying assumptions behind the reported margin guidance are:

- net losses from natural perils in line with an allowance of $680 million (2016-$600 million);
- prior period reserve releases of at least 1% of NEP; and
- no material movement in foreign exchange rates or investment markets.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company and the dividend policy employed by the Group are set out in the note 4.4 dividends within the Financial Statements.

Cash earnings are used for the purposes of targeted ROE and dividend payout policy and are defined as:

- net profit after tax attributable to IAG shareholders;
- plus amortisation and impairment of acquired identifiable intangibles; and
- excluding any unusual items (non-recurring in nature).

CASH EARNINGS	**2016** **$m**	2015 $m
Net profit after tax	**625**	728
Acquired intangible amortisation and impairment	**57**	150
	682	878
Non-recurring items:		
Corporate expenses	**221**	155
Tax effect on corporate expenses	**(36)**	(46)
Cash earnings*	**867**	987
Interim dividend	**316**	304
Final dividend	**316**	389
Dividend payable	**632**	693
Cash payout ratio*	**72.9%**	70.2%

* Cash earnings and cash payout ratio represent non-IFRS financial information.

IAG has revised its full year dividend payout policy to pay dividends equivalent to approximately 60–80% (30 June 2015-50-70%) of reported full year cash earnings in respect of any given financial year.

The Board has determined to pay a fully franked final dividend of 13.0 cents per ordinary share (cps) (2015-16.0 cps), bringing the full year dividend to 26 cps (2015-29 cps). In addition, IAG has paid a special fully franked dividend of 10.0 cents per ordinary share in March 2016. The final dividend is payable on 5 October 2016 to shareholders registered as at 5pm on 7 September 2016. The Company's Dividend Reinvestment Plan (DRP) will operate for the final dividend by acquiring shares on market with no discount applied. The DRP Issue Price will be based on a volume weighted average share price as defined in the DRP terms. The last date for the receipt of an election notice for participation in the Company's DRP is 8 September 2016. Information about IAG's DRP is available at www.iag.com.au/shareholder centre/dividends/reinvestment.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the following changes became effective:

- On 16 November 2015, the Board appointed Peter Harmer as Managing Director and CEO. Mr Harmer replaced Michael Wilkins who retired as Managing Director and CEO, but remained in an executive capacity until 31 March 2016.
- New structure and leadership team:
  - Effective 9 December 2015, a new organisational structure and leadership team were announced, to drive the Group's future profitability and growth. Roles and responsibilities of the new leadership team are available on the IAG website.
  - In the Australian market IAG has two customer facing divisions responsible for sales, service, and brand and marketing execution. The Consumer Division focuses on individuals and families, and the Business Division focuses on businesses of all sizes.
  - IAG continues to report its financial results using its four reporting segments: Consumer Division, Business Division, New Zealand and Asia.

- On 16 February 2016, the Board appointed Elizabeth Bryan AM as its Chairman, effective 31 March 2016. Ms Bryan succeeded Brian Schwartz AM, who announced his intention to retire from the Board at the Company's annual general meeting in October 2015.
- On 16 February 2016, IAG completed an innovative reinsurance transaction with BH that mitigates the Group's exposure to the Canterbury earthquakes and asbestos related liabilities. The transaction comprised:
  - an ADC which provides NZ$600 million of protection above NZ$4.4 billion for the February 2011 Canterbury earthquake event; and
  - a reinsurance arrangement in respect of IAG's asbestos portfolio.
- On 15 June 2016, the Company issued NZ$350 million of subordinated convertible term notes. The subordinated notes qualify as Tier 2 Capital under the APRA capital adequacy framework for general insurers.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year are set out below and in note 7.3 events subsequent to reporting date within the Financial Statements. These include:

- On 19 August 2016, the Board determined to pay a final dividend of 13 cents per share, 100% franked. The dividend will be paid on 5 October 2016. The dividend reinvestment plan will operate by acquiring shares on-market for participants with no discount applied.
- On 19 August 2016, IAG announced, as part of the Group's active capital management program, an off-market share buy-back (via a tender process) of up to $300 million. The share buy-back is expected to represent over 2% of IAG's outstanding issued ordinary share capital. The capital component of the share buy-back is expected to be $2.99 and the balance deemed to be a fully franked dividend. The proceeds of the share buy-back are expected to be dispatched to participating shareholders on 17 October 2016.

NON-AUDIT SERVICES

During the financial year, KPMG performed certain other services for the Group in addition to its statutory duties.

The Directors have considered the non-audit services provided during the financial year by KPMG and, in accordance with written advice provided by resolution of the AC, are satisfied that the provision of those non-audit services by the Group's auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit assignments were approved in accordance with the process set out in the IAG framework for engaging auditors for non-audit services; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants of the Chartered Accountants Australia and New Zealand and CPA Australia, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The level of fees for total non-audit services amounted to approximately $1.5 million (refer to the note 8.3 remuneration of auditors for further details of costs incurred on individual non-audit assignments).

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 35 and forms part of the Directors' Report for the year ended 30 June 2016.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company's constitution contains an indemnity in favour of every person who is or has been:

- a Director of the Company or a subsidiary of the Company; or
- a Secretary of the Company or of a subsidiary of the Company; or
- a person making or participating in making decisions that affect the whole or a substantial part of the business of the Company or of a subsidiary of the Company; or
- a person having the capacity to affect significantly the financial standing of the Company or of a subsidiary of the Company.

The indemnity applies to liabilities incurred by the person in the relevant capacity (except a liability for legal costs). That indemnity also applies to legal costs incurred in defending or resisting certain legal proceedings. The indemnity does not apply where the Company is forbidden by statute or, if given, would be made void by statute.

In addition, the Company has granted deeds of indemnity to certain current and former Directors and Secretaries and members of senior management of the Company and its subsidiaries and associated companies. Under these deeds, the Company:

- indemnifies, to the maximum extent permitted by law, the former or current Directors or Secretaries or members of senior management against liabilities incurred by the person in the relevant capacity. The indemnity does not apply where the liability is owed to the Company or any of its subsidiaries or associated companies, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud; and
- is also required to maintain and pay the premiums on a contract of insurance covering the current or former Directors or members of senior management against liabilities incurred in respect of the relevant office except as precluded by law. The insurance must be maintained until the seventh anniversary after the date when the relevant person ceases to hold office. Disclosure of the insurance premiums and the nature of liabilities covered by such insurance are prohibited by the relevant contract of insurance.

REMUNERATION REPORT
LETTER FROM THE PEOPLE AND REMUNERATION COMMITTEE CHAIRMAN

Dear Shareholder

IAG is pleased to present its Remuneration Report for the year ended 30 June 2016.

The People and Remuneration Committee (PARC) reaffirms its commitment to delivering remuneration outcomes that reflect both business performance and shareholder returns, as well as ensuring IAG is able to continue to attract and retain high quality executives.

Throughout the year the business strategy has evolved, and remuneration frameworks continue to support the changing needs of the business. The overall organisation results are reflected in the remuneration outcomes received by Executives.

The following table provides a summary of some key highlights for the year ended 30 June 2016:

CURRENT YEAR HIGHLIGHTS	SUMMARY
A new leadership team was appointed	In November 2015, Peter Harmer was appointed as Group CEO and in December 2015 Peter appointed his new Executive team.
Fixed pay supports IAG's remuneration principles	The fixed pay for the newly appointed Executive team reflects their experience in the relevant roles, as well as internal and external benchmarks. This supports key principles underpinning IAG's remuneration framework of aligning remuneration to the incumbent's skill and experience, internal relativities of IAG's Executive team and external roles to remain market competitive. As a result of difficult market conditions, it was determined by PARC in August 2015 that no fixed pay increases would be provided to our Executive team over the 2016 financial year other than where there was a change in role.
Short term performance was sound	In the 2016 financial year, IAG undertook significant changes designed to set up the organisation for continuous growth and profitability into the future. Whilst these changes impacted leadership teams, operating models and organisational structures, IAG's short term business performance remained sound. The business maintained a stable market position, continued to perform well at an underlying level and IAG has received some notable recognition for its leadership in the industry. Reflective of the business' short term performance, the average Short Term Incentive (STI) payment was 67% of the maximum achievable for the Executive team.
IAG focuses Executives on being Closer, Braver, Faster	The IAG Spirit was introduced in the current financial year and encompasses what is important to IAG; how we serve our customers, partners, shareholders, communities and each other. The IAG Spirit is measured through an individual's commitment and demonstrated behaviour to display IAG's core values of Closer, Braver, Faster. To align Executive behaviours with the IAG Spirit, eligibility for a STI payment is now dependent on demonstrating the IAG Spirit.
IAG delivers sustained long term performance	IAG once again achieved strong returns, with full vesting of the Return on Equity (ROE) portion of the LTI. IAG ranked at the 52nd percentile of its peer group and achieved 54% vesting of the Total Shareholder Return (TSR) component of the Long Term Incentive (LTI).
ROE vesting schedule adjusted to align to market practice	A review was conducted during the 2016 financial year to assess the appropriateness of our LTI performance hurdles. The review confirmed that TSR and ROE continue to appropriately align Executives with IAG's three to four year aspirations, and consequently the current performance hurdles will remain in place for the 2016 LTI awards. The PARC has determined that a more detailed review of the ROE hurdle will take place prior to the 2017 awards to ensure it continues to drive the desired outcomes for shareholders.
Shareholder interests are aligned through a mandatory shareholding requirement	As part of IAG's philosophy of aligning the interests of Executive and Non Executive Directors (NEDs) with those of shareholders, all Executive and NEDs are required to hold a proportion of their remuneration as IAG shares. All Executives and NEDs who were required to meet their mandatory shareholding requirement at 30 June 2016 have done so.
Review of Balanced Scorecard for the 2017 financial year	IAG is currently undertaking a review of its Executive Remuneration Framework. As part of this review, the incorporation of a Net Promoter Score (NPS) into the balanced scorecard is currently under consideration. A NPS measure focuses Executives' efforts on earning and sustaining loyal customers and vocal promoters of the business, by nurturing a business culture which IAG customers can believe in and rely upon.

IAG is committed to ensuring the Remuneration Report presents executive remuneration in a consistent, concise and simple manner, as well as complying with the Corporations Act 2001. As in previous years, in this report the Company voluntarily discloses the actual remuneration received by Executives, in addition to meeting our statutory reporting obligations.

The People and Remuneration Committee are confident that IAG's remuneration framework supports the Group's financial and strategic goals now and into the future.

Yours sincerely

Elizabeth Bryan AM
Chairman - People and Remuneration Committee

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A. KEY MANAGEMENT PERSONNEL COVERED IN THIS REPORT

This report sets out the remuneration details of IAG's KMP as listed below:

NAME	POSITION	TERM AS KMP[a]
Executives		
Peter Harmer[b]	Managing Director and Chief Executive Officer	Full year
Julie Batch	Chief Customer Officer	From 8 December 2015
Chris Bertuch	Group General Counsel & Company Secretary	From 8 December 2015
Ben Bessell	Chief Executive, Australian Business Division	Full year
Duncan Brain	Chief Executive, Asia	Full year
David Harrington	Group Executive, Office of the CEO	From 8 December 2015
Nicholas Hawkins	Chief Financial Officer	Full year
Jacki Johnson[c]	Group Executive, People, Performance & Reputation	Full year
Anthony Justice	Chief Executive, Australian Consumer Division	From 8 December 2015
Mark Milliner	Chief Operating Officer	From 27 April 2016
Craig Olsen	Chief Executive, New Zealand	From 1 January 2016
Claire Rawlins	Group Executive, Digital & Technology	From 8 December 2015
Clayton Whipp	Chief Risk Officer	Full year
Executives who ceased as key management personnel		
Michael Wilkins	Managing Director and Chief Executive Officer	Ceased 16 November 2015
Andy Cornish[d]	Acting Chief Operating Officer	Ceased 27 April 2016
Alex Harrison	Chief Executive, Enterprise Operations	Ceased 31 August 2015
Leona Murphy	Chief Strategy Officer	Ceased 31 December 2015
Non-Executive Directors		
Elizabeth Bryan[e]	Chairman, Independent Non-Executive Director	Full year
Alison Deans	Independent Non-Executive Director	Full year
Hugh Fletcher	Independent Non-Executive Director	Full year
Raymond Lim	Independent Non-Executive Director	Full year
Jonathan Nicholson	Independent Non-Executive Director	From 1 September 2015
Tom Pockett	Independent Non-Executive Director	Full year
Philip Twyman	Independent Non-Executive Director	Full year
Non-Executive Directors who ceased as key management personnel		
Brian Schwartz	Chairman, Independent Non-Executive Director	Ceased 31 March 2016
Yasmin Allen	Independent Non-Executive Director	Ceased 30 September 2015

(a) All remuneration is disclosed from the date the individual was appointed as a KMP (ie. their contract commencement date) to the date of cessation.

(b) Peter Harmer held the position of Chief Digital Officer until 31 July 2015, then Chief Executive IAG Labs until 16 November 2015. He commenced as Managing Director and Chief Executive Officer on 16 November 2015.

(c) Jacki Johnson held the position of Chief Executive, New Zealand until 31 December 2015. She commenced as Group Executive, People, Performance and Reputation on 1 January 2016.

(d) Andy Cornish held the position of Chief Executive Personal Insurance up to 8 December 2015 and acting Chief Operations Officer until 27 April 2016. He ceased employment on 1 July 2016. His termination benefits are disclosed in the current financial year.

(e) Elizabeth Bryan held the position of Deputy Chairman from 5 December 2014 until 31 March 2016, when she commenced as Chairman.

Key terms that are used throughout the report are defined in detail in section J key terms and definitions.

B. 2016 SNAPSHOT

I. Actual remuneration received by Executives

For remuneration details provided in accordance with the Accounting Standards refer to section G Statutory remuneration disclosure requirements.

TABLE 1 - ACTUAL REMUNERATION RECEIVED IN 2016 AND 2015

NAME	FINANCIAL YEAR	FIXED PAY $000	OTHER BENEFITS AND LEAVE ACCRUALS $000 (1)	TERMINATION BENEFITS $000 (2)	CASH STI $000	DEFERRED STI VESTED $000 (3)	LTI VESTED $000 (4)	TOTAL ACTUAL REMUNERATION RECEIVED $000
EXECUTIVES								
Peter Harmer	**2016**	**1,460**	**70**	**-**	**905**	**311**	**1,428**	**4,174**
	2015	1,012	(23)	-	473	432	2,152	4,046
Julie Batch	**2016**	**343**	**34**	-	**153**	**-**	**-**	**530**
Chris Bertuch	**2016**	**400**	**33**	-	**138**	**-**	**-**	**571**
Ben Bessell	**2016**	**686**	**31**	**-**	**271**	**83**	**161**	**1,232**
	2015	123	(7)	-	65	-	-	181
Duncan Brain	**2016**	**934**	**261**	**-**	**532**	**154**	**273**	**2,154**
	2015	921	263	-	469	210	429	2,292
David Harrington	**2016**	**346**	**33**	-	**160**	**-**	**-**	**539**
Nicholas Hawkins	**2016**	**1,026**	**(48)**	**-**	**593**	**318**	**1,428**	**3,317**
	2015	1,012	56	-	603	463	2,198	4,332
Jacki Johnson(5)	**2016**	**1,053**	**92**	**-**	**585**	**252**	**1,286**	**3,268**
	2015	1,096	(43)	-	418	398	1,949	3,818
Anthony Justice	**2016**	**372**	**(6)**	-	**156**	**-**	**-**	**522**
Mark Milliner	**2016**	**181**	**20**	-	**-**	**-**	**-**	**201**
Craig Olsen(6)	**2016**	**330**	**36**	-	**124**	**-**	**-**	**490**
Claire Rawlins	**2016**	**341**	**32**	-	**152**	**-**	**-**	**525**
Clayton Whipp	**2016**	**784**	**64**	**-**	**415**	**117**	**243**	**1,623**
	2015	755	64	-	341	211	367	1,738
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Michael Wilkins	**2016**	**808**	**(46)**	**1,060**	**1,197**	**792**	**3,580**	**7,391**
	2015	2,112	232	-	1,314	1,232	5,514	10,404
Andy Cornish	**2016**	**875**	**49**	**1,086**	**887**	**256**	**1,486**	**4,639**
	2015	1,052	93	-	602	469	2,290	4,506
Alex Harrison	**2016**	**145**	**(6)**	**782**	**-**	**128**	**260**	**1,309**
	2015	849	51	-	611	192	397	2,100
Leona Murphy	**2016**	**466**	**52**	**808**	**410**	**261**	**1,286**	**3,283**
	2015	910	38	-	505	411	1,981	3,845

(1) Further details are provided in table 8 in section G Statutory remuneration disclosure requirements.

(2) Includes payment in lieu of notice, redundancy payment and outplacement services.

(3) The deferred STI vesting on 1 September 2015 was valued using the five day weighted average share price $5.14 (1 September 2014: $6.49).

(4) The LTI vested was valued using the five day weighted average share price at vesting date was $5.50 for awards vested on 24 August 2015 and $4.84 for awards vested on 30 September 2015 (20 August 2014: $6.27; 30 September 2014: $6.18).

(5) Remuneration for Jacki Johnson between 1 July 2015 and 1 January 2016 was determined in New Zealand dollars. Full year remuneration is reported in Australian dollars.

(6) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars.

There were no fixed pay increases for Executives during the 2016 financial year except for newly appointed Executives to recognise the increased responsibilities associated with their new roles.

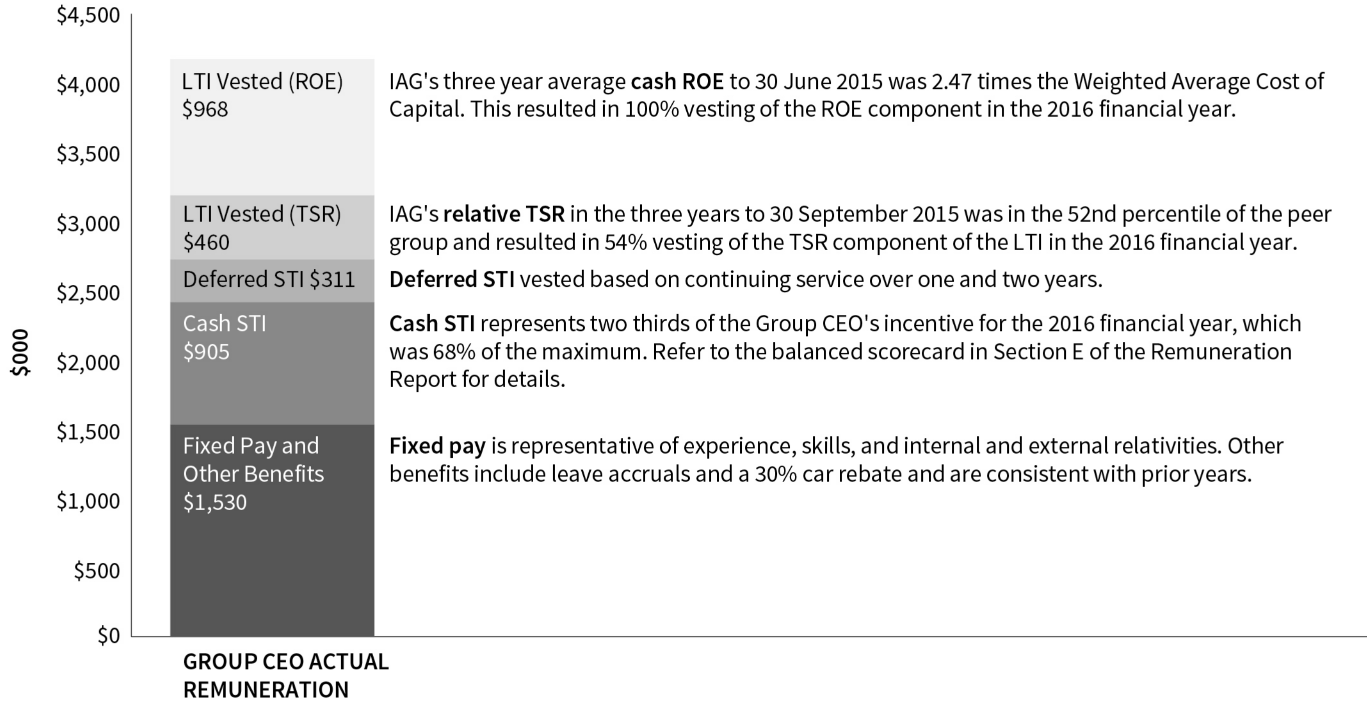
II. Group CEO remuneration explained

Actual remuneration received is based on the Group's performance over a number of different time periods and is linked explicitly to the performance hurdles and timeframes over which they are achieved.

Using the current Group CEO's remuneration as an example, actual remuneration received has reduced this year from previous years, given the number of rights vested was lower this year than in prior years. This was due to reduced share price movement, TSR performance and no retests occurring for the TSR hurdle.

The following graph illustrates the current Group CEO's remuneration, broken down into the components of his remuneration plan.

GROUP CEO FY16 PERFORMANCE AND ACTUAL REMUNERATION OUTCOMES



C. EXECUTIVE REMUNERATION GOVERNANCE

BOARD
Ensures the Group remuneration framework is aligned to the short and long term interests of IAG and its shareholders.
Independently considers recommendations made by the PARC before making executive remuneration decisions.

PARC
Ensures the remuneration policies and practices support the delivery of IAG's strategic goals.

Advises the Board on:
- Group remuneration policy and its effectiveness
- Executive remuneration and contract terms
- IAG Non-Executive Director (NED) remuneration.

Approves:
- Exceptions to policy
- Equity-based plans
- Target market positioning
- Annual remuneration reporting
- Subsidiary board NED Remuneration.

EXTERNAL REMUNERATION CONSULTANTS
The PARC engages remuneration consultants to provide advice that assists the Board in making remuneration decisions.

MANAGEMENT
The Group CEO recommends Executive team remuneration and contract terms to the Board.

Executives may attend PARC meetings, by invitation, to assist the Committee in its deliberations and provide updates on people related strategy and initiatives.

I. Remuneration guiding principles
IAG's remuneration practices have been designed to achieve the following objectives, being to:
- align remuneration with the interests of IAG's shareholders;
- motivate employees to achieve superior and sustainable performance and discourage underperformance;
- retain market competitiveness to attract and retain high quality people;
- clearly communicate the remuneration policy; and
- encourage constructive behaviours and prudent risk taking that support long term financial soundness.

II. Use of remuneration consultants
The PARC engaged EY remuneration consultants to provide KMP remuneration benchmarking. The remuneration data provided was used as an input to the remuneration decisions by the Board only. No remuneration recommendations, as defined by the Corporations Act 2001, were provided by EY. The Board considered the data provided, together with other factors, in setting Executives' remuneration.

III. Adjustment policy
Each year, the Board assesses whether variable remuneration under the Deferred Award Rights (DAR) and Executive Performance Rights (EPR) Plans needs to be adjusted to:
- protect the financial soundness of IAG or an operating segment;
- respond to significant unexpected or unintended consequences that were not foreseen by the Board; or
- respond to other circumstances where the Board determines that an adjustment is necessary, including circumstances where behaviour does not align with a desired risk culture, to ensure that an inappropriate reward outcome does not occur.

In the year ended 30 June 2016, this investigation did not reveal any requirement for the Board to adjust remuneration.

IV. Mandatory shareholding requirement
The Group CEO is required to accumulate and hold IAG ordinary shares with a value of two times their base salary, and the Executive team one times their respective base salaries. Executives have four financial years from their date of appointment as an Executive to meet their requirement. Holdings are assessed annually at the end of each financial year, using the closing share price at 30 June and the Executive's base salary from four years prior. The shareholding includes Executives' directly held shares and rights vested and unexercised as at 30 June, for entities controlled, jointly controlled or significantly influenced by the Executive. Shares held by the Executives' domestic partner and dependants are not included in the mandatory shareholding requirement calculation. All Executives appointed prior to 30 June 2012 met the mandatory shareholding requirement at 30 June 2016.

D. EXECUTIVE REMUNERATION STRUCTURE

I. Summary of remuneration components

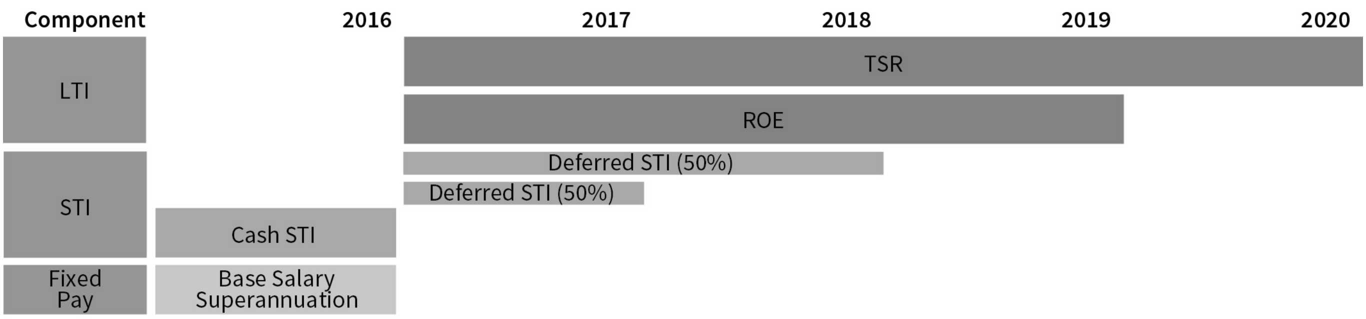
The table below outlines the remuneration components and the strategic objective of each component:

TABLE 2 - REMUNERATION COMPONENTS

COMPONENT	MEASURE	STRATEGIC OBJECTIVE
LTI	TSR 50%	TSR provides a direct link between Executive reward and shareholder return by measuring the value created for shareholders through the appreciation of the share price and the value of dividends.
	ROE 50%	ROE provides evidence of company profitability and is linked to shareholder return. IAG uses ROE as a key measure of the efficiency of the Group's financial performance.
STI	Balanced scorecard	Financial and non-financial measures provide a balance between rewarding the achievement of financial targets and non-financial objectives that drive the execution of IAG's strategy and future growth.
Fixed pay	Position description	Fixed pay is market competitive based on the roles' experience, skills, internal relativities of the Executive team and market pay levels of similar external roles. Fixed pay for Australian based Executives is determined by reference to peer groups, including financial services companies in the S&P/ASX 50 Index and companies that are of similar size to IAG. Relevant local market peer groups are referenced for overseas based Executives.

The remuneration components are structured to reward Executives across different timeframes. The graph below shows the remuneration components and the periods over which performance is assessed:

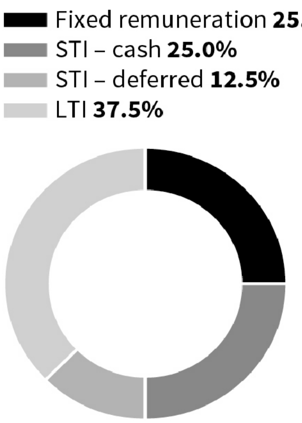
REMUNERATION COMPONENT TIMEFRAMES



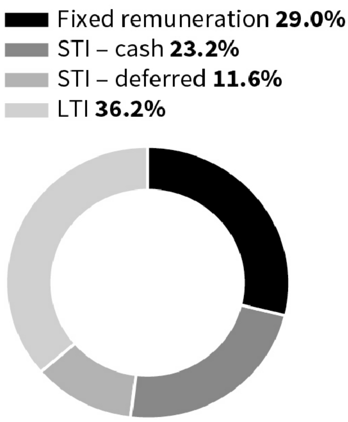
II. Potential remuneration mix

Total potential remuneration for Executives comprises a mix of fixed pay and maximum potential at-risk remuneration (STI and LTI). The mix, shown in the graph below, is designed to pay Executives competitively based on their performance, while providing strong governance to protect the financial soundness of the business and shareholders' interests.

POTENTIAL GROUP CEO REMUNERATION MIX



AVERAGE POTENTIAL EXECUTIVE TEAM MEMBER REMUNERATION MIX



Notes:

- Potential remuneration is based on current remuneration at 30 June 2016. STI and LTI are based on maximum opportunities.

III. At-Risk remuneration

The Board strongly believes that the fundamental driver for executive remuneration should be long term financial performance that generates value for IAG shareholders. The Board further recognises that executive remuneration is guided by regulation and market forces and it regularly reviews IAG's executive remuneration to ensure IAG uses at-risk remuneration components to achieve its remuneration and performance objectives.

a. Cash and deferred short term incentive (STI)

Cash and deferred STI is the at-risk remuneration designed to motivate and reward for performance in the financial year. The graph below shows the maximum STI potential, the gateway and the measures that drive the STI outcome for the 2016 financial year:

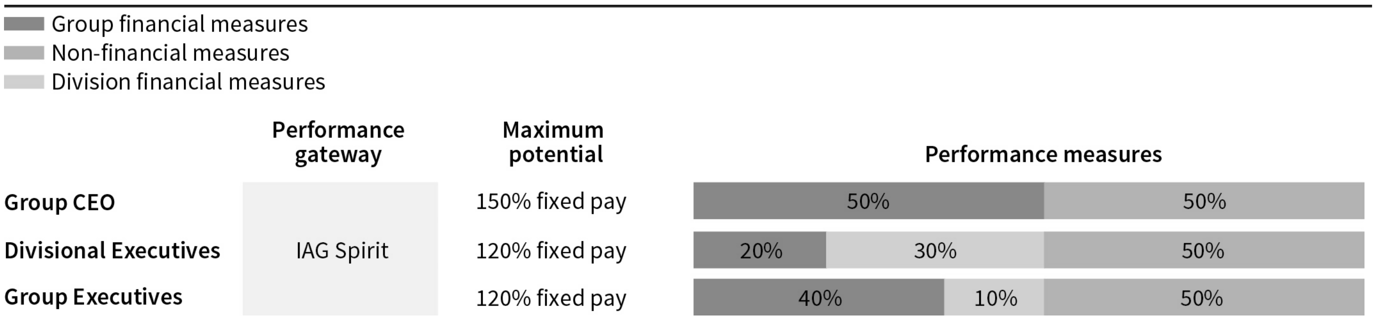


TABLE 3 - STI PLAN

Performance gateway	The IAG Spirit describes what is important to IAG; how we serve our customers, partners, shareholders, communities and each other. Eligibility for a STI payment is dependent on demonstrating the IAG Spirit. The IAG Spirit is measured through an individual's commitment and demonstrated behaviour to display IAG's core values of Closer, Braver, Faster. Therefore, if Executives do not demonstrate the behaviours within the IAG Spirit, they will not be eligible for a STI payment. The IAG Spirit gateway is designed to highlight the link between demonstrating the IAG Spirit and the achievement of performance outcomes.
Performance measures and evaluation	Performance is measured against a balanced scorecard that uses both financial and non-financial goals (the balanced scorecard is discussed in more detail in table 5). The Group CEO's STI is recommended by the PARC based on their balanced scorecard performance and is approved by the Board. The amount of STI paid to members of the Executive team is recommended by the Group CEO to the PARC based on the Executive team members' balanced scorecard performance and subsequently recommended by the PARC for approval by the Board. The Board may apply discretion in determining the STI outcomes to ensure they appropriately reflect an Executive's performance.
Instrument	Two-thirds of the STI is paid as cash, with the remaining one third deferred in the form of Deferred Award Rights (DAR) that vest equally over two years.
Key terms of the deferred STI	Deferred STI is issued in the form of DAR, which are rights over IAG ordinary shares. They are issued to Executives during the financial year at no cost, to the value of their deferred STI amount. The number of DAR issued is calculated based on the price of an IAG ordinary share at 30 June before the grant date. Executives who participate in this plan become eligible to receive one IAG ordinary share per DAR by paying an exercise price of $1 per tranche of DAR exercised, subject to their continuing employment with the Group for a period determined by the Board. No dividend is paid or payable for any unvested or vested and unexercised DAR.
Forfeiture conditions	The Board retains the discretion to adjust downwards the unvested portion of any awards. DAR will be forfeited if the Executive resigns before the vesting date. When an Executive ceases employment in special circumstances, such as redundancy, any unvested rights may be retained on cessation of employment, subject to Board discretion.

b. Long term incentive (LTI)

LTI grants are determined annually by the Board. The grants are provided in the form of Executive Performance Rights (EPR) with measures aligned to the Group's strategic financial targets. The maximum value of EPR that can be granted to the Group CEO and Executive team members under the LTI plan is 150% and 125% of fixed pay respectively.

TABLE 4 - LTI PLAN

	RETURN ON EQUITY (ROE)	RELATIVE TOTAL SHAREHOLDER RETURN (TSR)
Description	ROE - 50% weighting Cash return on equity is measured relative to the Group's WACC.	TSR - 50% weighting Total shareholder return is measured against that of the top 50 industrials within the S&P/ASX 100 Index.
Testing	The ROE portion of the LTI is tested from 1 July of the grant year to 30 June three years later.	The TSR portion of the LTI is tested four years after 30 September of the grant year with no additional opportunity for retesting. TSR granted prior to July 2013 is tested after three years and then again at four years and five years. Retesting was removed from subsequent grants of EPR.
Vesting	0% vesting <1.2 x WACC 20% vesting at 1.2 x WACC 100% vesting at 1.6 x WACC with straight line vesting in between.	0% vesting if <50th percentile of index group 50% vesting if aligned to 50th percentile of index group 100% vesting if aligned to 75th percentile of index group with straight line vesting in between.
Instrument	Rights granted after 1 July 2013 may be settled with either IAG ordinary shares or with cash if performance hurdles are achieved, as determined by the Board. Rights granted prior to 1 July 2013 are settled with IAG ordinary shares.	
Key terms of the LTI	The number of EPR issued is calculated based on the share price of an IAG ordinary share at 30 June. EPR granted during the year will not vest and have no value to the Executive unless the performance hurdles are achieved. No dividend is paid or payable for any unvested or vested and unexercised EPR.	
Forfeiture conditions	Under the terms of the LTI, if an Executive ceases employment with the Group voluntarily before the performance hurdles are tested, the unvested EPR will generally lapse. In cases where the Executive acts fraudulently or dishonestly or is in breach of his or her obligations to the Group, the unvested EPR will lapse.	

E. LINKING THE GROUP'S PERFORMANCE AND REWARD

I. Linking IAG's short term performance and short term reward

The table below provides a summary of key balanced scorecard objectives and outcomes for the Group for the year ended 30 June 2016. The objectives are agreed with the Board at the beginning of each financial year and are designed to stretch the Executives to deliver sustainable value for shareholders.

TABLE 5 - BALANCED SCORECARD OBJECTIVES AND PERFORMANCE REQUIREMENTS

CATEGORY	OBJECTIVE	WEIGHTING	RESULT	OUTCOME
Financial measures	Return on risk based capital	15%	Met	The Group sets targets to achieve a return on its risk based capital that requires outperformance through the cycle. This return reflects how effectively IAG uses its capital and is directly aligned to the Group's strategic target of achieving a ROE of 1.5 times the weighted average cost of capital. In the current financial year, the Group reported a return on risk based capital that was aligned to budget.
	Profitable growth	10%	Did not meet	To grow profitably and create value for shareholders, IAG continues to develop our products, markets and customer base. In the current financial year, GWP increased for the Australian Consumer Division and Asia, but was below anticipated in the Australian Business Division and New Zealand.
	Operating cost efficiencies	15%	Exceeded	IAG successfully achieved its operating cost efficiencies by focusing on simplifying and streamlining our business and delivering on our synergy commitments.

CATEGORY	OBJECTIVE	WEIGHTING	RESULT	OUTCOME
	Secure position in chosen markets	10%	Met	Across the Group, IAG's market position remained stable. While facing a challenging market, IAG was able to maintain market position in three of the four markets.
Non-financial measures	IAG is the insurer of choice	10%	Met	IAG remains committed to our customers and delivering exceptional experiences. This has been reflected in maintaining our strong Net Promoter Scores across both the Australian Consumer Division and New Zealand businesses, proving our customers continue to be advocates for IAG's brands.
	IAG sets the market benchmark	10%	Exceeded	While the Australian Business Division Partner Advocacy score has remained stable, CGU Insurance has received notable recognition from external sources including being voted Insurer of the Year by Insurance Business magazine and winning the NIBA General Insurer of the Year Award.
	IAG makes communities safer, stronger and more confident	5%	Exceeded	IAG is focused on making communities safer, stronger and more confident by investing in partnerships, programs and projects that create shared value for IAG and the community. Over the year, IAG received a number of awards and external recognition for our responsible business and sustainability practices, which cover aspects relating to our Governance and Ethics as well as Social and Environmental performance. We have continued to focus on initiatives that support indigenous programs, corporate sustainability and community disaster resilience.
	IAG attracts and nurtures talent, is agile, flexible and a safe place to work	10%	Did not meet	The organisational culture has not reached the constructive level we aspire to. The 2016 financial year was a time of change: we announced a new operating model, set up different ways of working, and introduced simplification initiatives which impacted our people. However, during this time, IAG continued to drive organisational improvement across safety, agility, flexibility, diversity and inclusion, including continued progress on meeting our target of 38% women in senior management roles by 2020 and positive workplace health and safety performance improvement in Australia and New Zealand. This sets us up well to drive a more constructive culture into the future.
	Execute FY16-FY18 strategic priorities	5%	Met	IAG's strategic priorities focus the business on delivering initiatives that are the most important for our organisation. We successfully progressed our current financial year strategic priorities, including developing and leveraging deep customer insights and accelerating IAG's digital transformation.
	Effectively govern and manage risk	5%	Met	Strategies have been developed to further uplift IAG's Risk Management Framework to manage key organisational risks. Risk management practices contribute strongly to strategic and operational decision making. Overall effectiveness of Risk Management at IAG is supported by external validation.
	Build capability and agility for future value	5%	Exceeded	IAG remains dedicated to building capability and agility that will set the foundation for future success. This includes launching six new ventures (including Sharecover and InsureLite); building Human Centred Design capability and embedding it across all product development and innovation projects; and establishing enterprise-wide customer and digital functions through our Customer Labs and Digital Labs teams.

II. STI outcomes for the year ended 30 June 2016

STI payments made to Executives for the year ended 30 June 2016 are set out below, and were based on achievement against the balanced scorecard measures described in table 5. In line with the overall performance, the STI awarded to Executives are, on average, slightly higher than last year.

TABLE 6 - ACTUAL STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2016

	MAXIMUM STI OPPORTUNITY	ACTUAL STI OUTCOME		CASH STI OUTCOME (2/3 OF OUTCOME)	DEFERRED STI OUTCOME (1/3 OF OUTCOME)
	(% of fixed pay)[a]	(% of maximum)[b]	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
Peter Harmer	139 %	68 %	94 %	63 %	31 %
Julie Batch	103 %	70 %	72 %	48 %	24 %
Chris Bertuch	103 %	55 %	56 %	38 %	18 %
Ben Bessell	120 %	50 %	60 %	40 %	20 %
Duncan Brain	120 %	72 %	86 %	58 %	28 %
David Harrington	103 %	70 %	72 %	48 %	24 %
Nicholas Hawkins	120 %	73 %	88 %	58 %	30 %
Jacki Johnson	120 %	67 %	80 %	54 %	26 %
Anthony Justice	103 %	74 %	76 %	51 %	25 %
Mark Milliner	120 %	- %	- %	- %	- %
Craig Olsen	100 %	68 %	68 %	45 %	23 %
Claire Rawlins	101 %	73 %	74 %	49 %	25 %
Clayton Whipp	120 %	67 %	80 %	54 %	26 %

(a) Executives who had a change in role during the year have their incentive opportunity pro-rated between their prior role and their current role. Therefore, the STI opportunity is less than 150% of fixed pay for Peter Harmer and less than 120% of fixed pay for the newly appointed Executive team members.

(b) The proportion of STI forfeited is derived by subtracting the actual % of maximum received from 100% and was 33% on average for the year ended 30 June 2016 (compared to 39% in 2015).

III. Linking the Group's long term performance and long term reward

Details of LTI vested during the year are set out below:

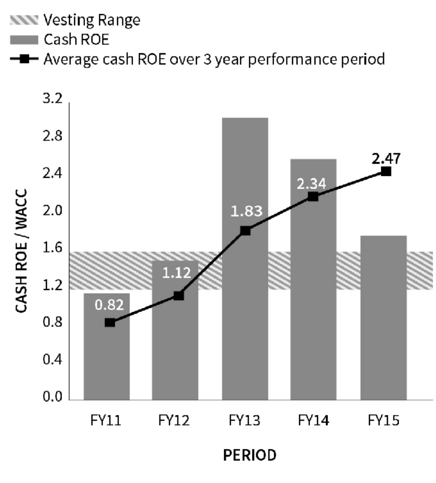
ROE – 100% vesting

For the performance period ended 30 June 2015, the average cash ROE was 2.47 times WACC. This resulted in full vesting of the ROE portion of the 2012/2013 Series 5 EPR. This strong cash ROE performance has similarly been reflected in the dividend provided to shareholders

TSR – 54% vesting

For the performance period ended 30 September 2015, IAG's TSR was ranked at the 52nd percentile of its peer group. This ranking translates to 54% vesting of the TSR portion of the 2012/2013 EPR. A retest will occur on 30 September 2016.

IAG HISTORICAL CASH ROE / WACC FOR THE LTI PLAN



The following table shows the returns IAG delivered to its shareholders for the last five financial years for a range of measures.

TABLE 7 - HISTORICAL ANALYSIS OF SHAREHOLDER RETURN ON LTI

	YEAR ENDED 30 JUNE 2012	YEAR ENDED 30 JUNE 2013	YEAR ENDED 30 JUNE 2014	YEAR ENDED 30 JUNE 2015	**YEAR ENDED 30 JUNE 2016**
Closing share price ($)	3.48	5.44	5.84	5.58	**5.45**
Dividend paid per ordinary share (cents)	17.00	36.00	39.00	29.00	**36.00**
Basic earnings per share (cents)	10.01	37.57	56.09	31.22	**25.79**
Cash ROE (%)	13.3	25.3	23.0	15.3	**13.0**
ROE to WACC outcome for EPR Plan	1.12	1.83	2.34	2.47	**2.00**
TSR for the financial year (%)*	5.3	59.2	15.6	1.8	**4.3**

* This represents the TSR performance measured for the 12 months from 1 July to 30 June.

F. EXECUTIVE EMPLOYMENT AGREEMENTS
All employment agreements for Executives are for unlimited terms but may be terminated by written notice from either party or by IAG making a payment in lieu of notice. The employment agreements outline the components of remuneration paid to each Executive and require annual review of Executives' remuneration, although the agreements do not require IAG to increase base salary, pay STI or offer an LTI in any given year.

All Executive contracts have a 12 month notice period from the relevant company for termination and the Executives must provide six months' notice, with the exception of Nicholas Hawkins who has an employee notice period of three months. Executives are employed by Insurance Australia Group Services Pty Limited, except for Craig Olsen who is employed by IAG New Zealand Limited.

I. Retrenchment
In the event of retrenchment, Executives (except for Craig Olsen) are entitled to the greater of:
- the written notice period or payment in lieu of notice as provided in their employment agreement; or
- the retrenchment benefits due under the company retrenchment policy.

For Executives based in Australia, the minimum benefit under the retrenchment policy is 11 weeks of base salary with a maximum benefit of 87 weeks of base salary. The maximum benefit is payable to employees with service of 25 years or more.

For Craig Olsen, the retrenchment payment is 12 months of fixed pay.

II. Termination of employment without notice and without payment in lieu of notice
The employment of an Executive may be terminated without notice and without payment in lieu of notice in some circumstances.

Generally, this could occur where the Executive:
- is charged with a criminal offence that could bring the organisation into disrepute;
- is declared bankrupt;
- breaches a provision of their employment agreement;
- is guilty of serious and wilful misconduct; or
- unreasonably fails to comply with any material and lawful direction given by the relevant company.

III. Termination of employment with notice or payment in lieu of notice
The employment of an Executive may be terminated at any time by the relevant company with 12 months notice or payment in lieu of notice. Payment in lieu of notice will be calculated based on fixed pay. If an Executive terminates voluntarily they are required to provide six months' notice, with the exception of Nicholas Hawkins who is required to provide three months' notice.

Subject to the relevant legislation in the various jurisdictions, termination provisions may include the payment of annual leave and/or long service leave for the Executives.

IV. Retired and Retrenched Executives
All termination benefits provided to retired and retrenched Executives were consistent with IAG's termination policy as disclosed in the Remuneration Report and did not exceed the level that would require shareholder approval under the Corporations Act 2001 (Terminations Cap).

Details of the payments received by retired and retrenched Executives are outlined below:

	Michael Wilkins Retirement $000 (1)	Andy Cornish Retrenchment $000 (2)	Alex Harrison Retrenchment $000 (2)	Leona Murphy Retrenchment $000 (3)
Termination benefits	2,257	816	565	923
Other benefits	-	270	217	295
Total benefits	2,257	1,086	782	1,218

(1) Termination benefits for Michael Wilkins include payment in lieu of notice and STI payment made ahead of the annual payment date.
(2) Termination benefits for Andy Cornish and Alex Harrison include contractual payments in lieu of notice that were above the redundancy entitlements required by the relevant statutes, and outplacement services. Other benefits include payment in lieu of notice and redundancy payments aligned to statutory entitlements.
(3) Termination benefits for Leona Murphy include contractual payment in lieu of notice that was above the redundancy entitlements required by the relevant statutes, and STI payment made ahead of the regular annual payment date. Other benefits include payment in lieu of notice and redundancy payment aligned to statutory entitlements.

G. STATUTORY REMUNERATION DISCLOSURE REQUIREMENTS

I. Total remuneration for Executives

Statutory remuneration details for Executives as required by Australian Accounting Standards are set out below:

TABLE 8 - STATUTORY REMUNERATION DETAILS (EXECUTIVES)

	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOY-MENT BENEFITS	OTHER LONG TERM EMPLOY-MENT BENEFITS	TERM-INATION BENEFITS	SUB-TOTAL	SHARE-BASED PAYMENT		TOTAL	AT-RISK REMUN-ERATION PAID
	Base salary	Cash STI	Leave accruals and other benefits	Superan-nuation	Long service leave accruals			Value of deferred STI	Value of rights granted		as a % of total reward
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
	(1)	(2)	(3)	(4)	(5)	(6)		(7)	(8)		
EXECUTIVES											
Peter Harmer											
2016	**1,425**	**905**	**16**	**35**	**54**	**-**	**2,435**	**313**	**1,016**	**3,764**	**59**
2015	977	473	(37)	35	14	-	1,462	341	1,032	2,835	65
Julie Batch											
2016	**326**	**153**	**16**	**17**	**18**	**-**	**530**	**110**	**171**	**811**	**54**
Chris Bertuch											
2016	**380**	**138**	**25**	**20**	**8**	**-**	**571**	**131**	**195**	**897**	**52**
Ben Bessell											
2016	**656**	**271**	**(5)**	**30**	**36**	**-**	**988**	**86**	**156**	**1,230**	**42**
2015	116	65	(10)	7	3	-	181	-	-	181	36
Duncan Brain											
2016	**899**	**532**	**245**	**35**	**16**	**-**	**1,727**	**815**	**719**	**3,261**	**63**
2015	886	469	243	35	20	-	1,653	167	534	2,354	50
David Harrington											
2016	**326**	**160**	**29**	**20**	**4**	**-**	**539**	**96**	**163**	**798**	**53**
Nicholas Hawkins											
2016	**996**	**593**	**(35)**	**30**	**(13)**	**-**	**1,571**	**341**	**977**	**2,889**	**66**
2015	982	603	68	30	(12)	-	1,671	353	1,007	3,031	65
Jacki Johnson[9]											
2016	**1,025**	**585**	**78**	**28**	**14**	**-**	**1,730**	**258**	**957**	**2,945**	**61**
2015	1,096	418	(50)	-	7	-	1,471	287	940	2,698	61
Anthony Justice											
2016	**355**	**156**	**(17)**	**17**	**11**	**-**	**522**	**64**	**76**	**662**	**45**
Mark Milliner											
2016	**176**	**-**	**19**	**5**	**1**	**-**	**201**	**-**	**-**	**201**	**-**
Craig Olsen[10]											
2016	**330**	**124**	**36**	**-**	**-**	**-**	**490**	**75**	**130**	**695**	**47**
Claire Rawlins											
2016	**321**	**152**	**30**	**20**	**2**	**-**	**525**	**-**	**21**	**546**	**32**
Clayton Whipp											
2016	**749**	**415**	**48**	**35**	**16**	**-**	**1,263**	**184**	**321**	**1,768**	**52**
2015	720	341	29	35	35	-	1,160	138	208	1,506	46

	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOY-MENT BENEFITS	OTHER LONG TERM EMPLOY-MENT BENEFITS	TERM-INATION BENEFITS	SUB-TOTAL	SHARE-BASED PAYMENT		TOTAL	AT-RISK REMUN-ERATION PAID
	Base salary	Cash STI	Leave accruals and other benefits	Superan-nuation	Long service leave accruals			Value of deferred STI	Value of rights granted		as a % of Total Reward
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
	(1)	(2)	(3)	(4)	(5)	(6)		(7)	(8)		
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL											
Michael Wilkins											
2016	**801**	**1,197**	**144**	**7**	**(190)**	**1,060**	**3,019**	**1,383**	**3,898**	**8,300**	**78**
2015	2,093	1,314	188	19	44	-	3,658	898	2,525	7,081	67
Andy Cornish											
2016	**846**	**887**	**29**	**29**	**20**	**1,086**	**2,897**	**505**	**2,421**	**5,823**	**65**
2015	1,017	602	73	35	20	-	1,747	307	1,048	3,102	63
Alex Harrison											
2016	**139**	**-**	**(31)**	**6**	**25**	**782**	**921**	**126**	**769**	**1,816**	**49**
2015	819	611	29	30	22	-	1,511	144	308	1,963	54
Leona Murphy											
2016	**450**	**410**	**21**	**16**	**31**	**808**	**1,736**	**484**	**2,121**	**4,341**	**69**
2015	880	505	20	30	18	-	1,453	298	907	2,658	64

(1) Base salary includes amounts paid in cash plus the portion of the Company's superannuation contribution that is paid as cash instead of being paid into superannuation plus salary sacrifice items such as cars and parking, as determined in accordance with AASB 119 Employee Benefits.

(2) Cash STI represents the amount to be settled in cash in relation to the financial year from 1 July 2015 to 30 June 2016.

(3) This column includes leave accruals, 30% tax rebate on car allowances for certain KMP who have salary sacrifice arrangements on cars and other short term employment benefits as agreed and provided under specific conditions. Other benefits provided under specific conditions for KMP are provided as follows: Duncan Brain: accommodation allowances, airfares for home visits and medical insurance.

(4) Superannuation represents the employer's contributions.

(5) Long service leave accruals as determined in accordance with AASB 119.

(6) Termination benefits include payment in lieu of notice, redundancy entitlements and outplacement services (where provided).

(7) The deferred STI is granted as DAR and is valued using the Black-Scholes valuation model. An allocated portion of unvested DAR for financial years prior to 30 June 2015 is included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2016 will be granted in the next financial year, so no value was included in the current financial year's total remuneration.

(8) This value represents the allocated portion of unvested EPR. To determine the EPR values the Monte Carlo simulation (for the TSR performance hurdle) and Black-Scholes valuation (for the ROE performance hurdle) models have been applied. The valuation takes into account the exercise price of the EPR, life of the EPR, price of IAG ordinary shares as at 30 June, expected volatility of the IAG share price, expected dividends, risk free interest rate, performance of shares in the peer group of companies, early exercise and non-transferability and turnover which is assumed to be zero for an individual's remuneration calculation.

(9) Remuneration for Jacki Johnson for the period 1 July 2015 to 1 January 2016 was determined in New Zealand dollars and reported in Australian dollars.

(10) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars.

II. Movement in equity plans within the financial year

Changes in each Executive's holding of DAR and EPR during the financial year are set out below. The DAR granted during the year reflect the deferred portion of the STI outcome for the year ended 30 June 2015. The EPR granted during the year ended 30 June 2016 were in relation to the LTI plan.

TABLE 9 - MOVEMENT IN POTENTIAL VALUE OF DAR AND EPR FOR THE YEAR ENDED 30 JUNE 2016(1)

		RIGHTS ON ISSUE 1 JULY (2)	RIGHTS GRANTED DURING THE YEAR (3)		RIGHTS EXERCISED DURING THE YEAR (4)		RIGHTS ON ISSUE 30 JUNE	RIGHTS VESTED DURING THE YEAR	RIGHTS VESTED AND EXERCISABLE 30 JUNE
		Number	Number	Value ($000)	Number	Value ($000)	Number	Number	Number
EXECUTIVES									
Peter Harmer	DAR	90,600	42,500	220	(60,450)	331	72,650	60,450	-
	EPR	799,200	370,200	1,343	(271,117)	1,485	898,283	271,117	-
Julie Batch	DAR	48,050	-	-	(18,600)	102	29,450	18,600	-
	EPR	162,800	54,400	197	(40,271)	221	176,929	40,271	-
Chris Bertuch	DAR	33,950	-	-	-	-	33,950	-	-
	EPR	138,545	64,500	234	-	-	203,045	-	-
Ben Bessell	DAR	22,550	16,500	85	(16,200)	89	22,850	16,200	-
	EPR	101,100	108,600	394	(10,000)	55	199,700	30,569	20,569
Duncan Brain	DAR	47,700	400,600	2,074	(29,950)	164	418,350	29,950	-
	EPR	474,200	207,000	751	(51,821)	284	629,379	51,821	-
David Harrington	DAR	29,450	-	-	-	-	29,450	-	-
	EPR	130,191	52,300	190	-	-	182,491	-	-
Nicholas Hawkins	DAR	93,150	54,000	280	(61,800)	338	85,350	61,800	-
	EPR	799,200	227,400	825	(271,117)	1,485	755,483	271,117	-
Jacki Johnson	DAR	73,300	37,500	194	(49,100)	269	61,700	49,100	-
	EPR	756,700	244,500	887	(244,167)	1,337	757,033	244,167	-
Anthony Justice	DAR	20,600	-	-	-	-	20,600	-	-
	EPR	57,500	65,300	237	-	-	122,800	-	-
Mark Milliner(5)	DAR	-	-	-	-	-	-	-	-
	EPR	-	-	-	-	-	-	-	-
Craig Olsen	DAR	34,000	-	-	(13,650)	75	20,350	13,650	-
	EPR	115,000	62,600	227	(22,638)	124	154,962	22,638	-
Claire Rawlins	DAR	-	-	-	-	-	-	-	-
	EPR	-	75,500	274	-	-	75,500	-	-
Clayton Whipp	DAR	34,650	53,200	274	(22,700)	124	65,150	22,700	-
	EPR	178,900	173,700	630	(46,046)	252	306,554	46,046	-
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL									
Michael Wilkins	DAR	230,950	117,800	610	(154,050)	844	194,700	154,050	-
	EPR	2,002,500	-	-	(679,448)	3,720	1,323,052	679,448	-
Andy Cornish	DAR	70,750	54,000	280	(49,900)	273	74,850	49,900	-
	EPR	831,400	236,500	858	(282,128)	1,545	785,772	282,128	-
Alex Harrison	DAR	37,600	-	-	-	-	37,600	-	-
	EPR	290,300	-	-	-	-	290,300	32,050	32,050
Leona Murphy	DAR	75,250	45,300	235	(50,850)	278	69,700	50,850	-
	EPR	719,500	204,700	743	(244,090)	1,337	680,110	244,090	-

(1) There were no rights that lapsed or were forfeited but not yet lapsed during the year.

(2) Opening number of rights on issue represents the balance as at the date of appointment as KMP or 1 July 2015.

(3) The value of the DAR granted during the year is the fair value at grant date calculated using the Black-Scholes valuation model. The value of the annual DAR granted on 2 November 2015 and 31 March 2016 was $5.18 and $5.25 respectively. This amount is allocated to remuneration over years ending 30 June 2016 to 30 June 2018. Additional DAR grants of 358,500 to Duncan Brain and 22,600 to Clay Whipp were granted on 2 November 2015 have an expiry date of 2 November 2022 and are exercisable on 20 December 2017 and 1 September 2018 respectively. The value of the 358,500 DAR granted was $4.97 and this amount is allocated to remuneration over years ending 30 June 2016 to 30 June 2018. The value of the 22,600 DAR granted was $4.76. This amount is allocated to remuneration over the years ending 30 June 2016 to 30 June 2019. The value of the ROE portion of the EPR granted on 2 November 2015 and 31 March 2016 is the fair value at grant date, calculated using the Black-Scholes valuation model, which was $4.84 and $4.80 respectively. The value of the TSR portion of the EPR granted on 2 November 2015 and 31 March 2016 is the fair value at grant date, calculated using the Monte Carlo simulation, which was $2.42 and $2.35 respectively. The ROE portion of the EPR grants is first exercisable after the performance period concludes on 30 June 2018. The TSR portion of the EPR is first exercisable on 30 September 2019. The amount is allocated to remuneration over the years ending 30 June 2016 to 30 June 2020.

(4) Rights vested on or before 1 September 2015 and exercised during the financial year. The value of the rights exercised is based on the weighted average share price which was $5.48 for the year ended 30 June 2016.

(5) Mark Milliner will receive 150,000 DAR in November 2016 as compensation for incentives foregone on leaving his previous employer.

III. LTI awards outstanding during the year ended 30 June 2016

Details of outstanding LTI awards made to Executives in the year ended 30 June 2016 are shown in the table below:

TABLE 10 - LTI AWARDS OUTSTANDING DURING THE YEAR ENDED 30 JUNE 2016

AWARD	GRANT DATE	BASE DATE	FIRST TEST DATE	LAST TEST DATE	PERFORMANCE HURDLE ACHIEVEMENT	LAST EXERCISE DATE
2015/2016 Series 6 - TSR[a]	31/03/2016	30/09/2015	30/09/2019		N/A	31/03/2023
2015/2016 Series 6 - ROE[a]	31/03/2016	01/07/2015	30/06/2018		N/A	31/03/2023
2015/2016 Series 6 - TSR[a]	02/11/2015	30/09/2015	30/09/2019		N/A	02/11/2022
2015/2016 Series 6 - ROE[a]	02/11/2015	01/07/2015	30/06/2018		N/A	02/11/2022
2014/2015 Series 6 - TSR[a]	03/11/2014	30/09/2014	30/09/2018		N/A	03/11/2021
2014/2015 Series 6 - ROE[a]	03/11/2014	01/07/2014	30/06/2017		N/A	03/11/2021
2013/2014 Series 6 - TSR[a]	01/11/2013	30/09/2013	30/09/2017		N/A	01/11/2020
2013/2014 Series 6 - ROE[a][b]	01/11/2013	01/07/2013	30/06/2016		N/A	01/11/2020
2012/2013 Series 5 - TSR	26/10/2012	30/09/2012	30/09/2015	30/09/2017	54%	26/10/2019
2012/2013 Series 5 - ROE	26/10/2012	01/07/2012	30/06/2015		100%	26/10/2019

(a) Terms and conditions for EPR Plan 2013/2014, 2014/2015 and 2015/2016 are the same, therefore they are all referred to as Series 6.

(b) The cash ROE portion of EPR Plan 2013/2014 has been tested and is expected to vest in full. Vesting details will be included in the Remuneration Report for the year ending 30 June 2017.

H. NON-EXECUTIVE DIRECTOR REMUNERATION

I. Remuneration policy

The principles that underpin IAG's approach to remuneration for Non-Executive Directors are that remuneration should:

- be sufficiently competitive to attract and retain a high calibre of Non-Executive Director; and
- create alignment between the interests of Non-Executive Directors and shareholders through the mandatory shareholding requirement.

II. Remuneration structure

Non-Executive Director remuneration has two components:

- Board fees (paid as cash and superannuation); and
- subsidiary board and Committee fees.

a. CHANGES TO NON-EXECUTIVE REMUNERATION DURING THE YEAR ENDED 30 JUNE 2016

In August 2015, the Board approved maintaining Board fees at the current level, aligning to the approach taken for Executive fixed pay. The Board approved a Committee fee increase of 22.25% for all Committees except the Nominations Committee, to align fees with the market. The aggregate limit of Board fees approved by shareholders at the Annual General Meeting in October 2013 remains unchanged at $3,500,000 per annum.

The figures shown below are inclusive of superannuation. Directors can elect the portion of fees contributed into their nominated superannuation fund, provided minimum legislated contribution levels are met.

TABLE 11 - BOARD AND COMMITTEE FEES

		ROLE	
BOARD/COMMITTEE	YEAR	CHAIRMAN	DIRECTOR
Board	**2016**	**$565,800**	**$188,600**
	2015	$565,800	$188,600
Audit Committee	**2016**	**$50,000**	**$25,000**
	2015	$40,900	$20,450
Risk Committee	**2016**	**$50,000**	**$25,000**
	2015	$40,900	$20,450
People and Remuneration Committee	**2016**	**$50,000**	**$25,000**
	2015	$40,900	$20,450
Nominations Committee*	**2016**	**N/A**	**$10,000**
	2015	N/A	$10,000

* The Chair of the Nominations Committee is also the Chairman of the Company, therefore no Chair fee is applicable.

b. SUBSIDIARY BOARD AND COMMITTEE FEES

A summary of Non-Executive Directors' service on subsidiary boards and the fees paid is set out below:

TABLE 12 - FEES FOR NON-EXECUTIVE DIRECTORS' SERVICE ON SUBSIDIARY BOARDS

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
Elizabeth Bryan	Insurance Manufacturers of Australia Pty Limited	Chairman	$247,000
Hugh Fletcher*	IAG New Zealand Limited	Chairman	$137,936

* This amount was paid to Hugh Fletcher in New Zealand dollars and reported in Australian dollars.

III. Board performance

The Board conducts a review of its performance, composition, size and succession planning at least every three years with assistance from external experts (Formal Review). A Formal Review of the Board and each Non-Executive Director (including the Chairman), with assistance and input from an independent board performance expert, was conducted in 2016. The Formal Review process involves the completion of questionnaires by Non-Executive Directors and the Executive team; interviews with the independent expert; the collation of results; and discussion with individual Non-Executive Directors and the Board as a whole led by the Chairman. The PARC is responsible for coordinating the Board's review of the Chairman's performance.

Measures of a Non-Executive Director's performance include:

- contribution to Board teamwork;
- contribution to debates on significant issues and proposals;
- advice and assistance given to management;
- input regarding regulatory, industry and social developments surrounding the business; and
- in the case of the Chairman's performance, the fulfilment of the additional role as Chairman.

IV. Total remuneration details

Details of total remuneration for Non-Executive Directors on the Board for the year ended 30 June 2016 are set out below:

TABLE 13 - STATUTORY REMUNERATION DETAILS (NON-EXECUTIVE DIRECTORS)

	SHORT TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL
	IAG Board fees received as cash	Other Boards and Committee fees	Superannuation	Retirement benefits				
	$000	$000	$000	$000	$000	$000	$000	$000
NON-EXECUTIVE DIRECTORS								
Elizabeth Bryan								
2016	**276**	**111**	**19**	**-**	**-**	**-**	**-**	**406**
2015	99	6	10	-	-	-	-	115
Alison Deans								
2016	**172**	**28**	**19**	**-**	**-**	**-**	**-**	**219**
2015	173	37	19	-	-	-	-	229
Hugh Fletcher								
2016	**172**	**184**	**21**	**-**	**-**	**-**	**-**	**377**
2015	172	177	20	-	-	-	-	369
Raymond Lim								
2016	**172**	**23**	**19**	**-**	**-**	**-**	**-**	**214**
2015	172	19	18	-	-	-	-	209
Jonathan Nicholson[(a)]								
2016	**145**	**36**	**14**	**-**	**-**	**-**	**-**	**195**
Tom Pockett								
2016	**177**	**78**	**19**	**-**	**-**	**-**	**-**	**274**
2015	86	-	8	-	-	-	-	94
Philip Twyman								
2016	**177**	**82**	**19**	**-**	**-**	**-**	**-**	**278**
2015	177	80	19	-	-	-	-	276
NON-EXECUTIVE DIRECTORS WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Brian Schwartz								
2016	**424**	**169**	**14**	**-**	**-**	**-**	**-**	**607**
2015	568	226	19	-	-	-	-	813
Yasmin Allen								
2016	**44**	**16**	**5**	**-**	**-**	**-**	**-**	**65**
2015	178	84	19	-	-	-	-	281

(a) Director appointed part way through current financial year.

I. RELATED PARTY INTERESTS

In accordance with the Corporations Act Regulation 2M.3.03, the Remuneration Report includes disclosure of related parties.

I. Movements in total number of ordinary shares held

The relevant interests of each key management personnel and their related parties in IAG ordinary shares are disclosed in the table below:

TABLE 14 - MOVEMENT IN TOTAL NUMBER OF ORDINARY SHARES HELD

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF DAR	SHARES RECEIVED ON EXERCISE OF EPR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES[a]	TOTAL SHARES HELD AT 30 JUNE	SHARES HELD NOMINALLY AT 30 JUNE[b]
	Number	Number	Number	Number	Number	Number
2016						
NON-EXECUTIVE DIRECTORS AND EXECUTIVES						
Elizabeth Bryan	**31,409**	**-**	**-**	**1,316**	**32,725**	**32,725**
Alison Deans	**37,742**	**-**	**-**	**-**	**37,742**	**37,742**
Hugh Fletcher	**80,707**	**-**	**-**	**1,325**	**82,032**	**45,471**
Raymond Lim	**30,000**	**-**	**-**	**5,000**	**35,000**	**35,000**
Jonathan Nicholson[c]	**1,468**	**-**	**-**	**10,000**	**11,468**	**1,041**
Tom Pockett	**32,096**	**-**	**-**	**155**	**32,251**	**-**
Philip Twyman	**31,272**	**-**	**-**	**(15,750)**	**15,522**	**12,780**
Peter Harmer	**624,400**	**60,450**	**271,117**	**(300,000)**	**655,967**	**172,800**
Julie Batch[c]	**124,036**	**18,600**	**40,271**	**-**	**182,907**	**277**
Chris Bertuch[c]	**53,840**	**-**	**-**	**40**	**53,880**	**380**
Ben Bessell	**464**	**16,200**	**10,000**	**(26,200)**	**464**	**277**
Duncan Brain	**152,987**	**29,950**	**51,821**	**-**	**234,758**	**-**
David Harrington[c]	**1,227**	**-**	**-**	**160**	**1,387**	**789**
Nicholas Hawkins	**200,000**	**61,800**	**271,117**	**(312,917)**	**220,000**	**-**
Jacki Johnson	**1,299,493**	**49,100**	**244,167**	**(1,366,827)**	**225,933**	**225,933**
Anthony Justice[c]	**-**	**-**	**-**	**-**	**-**	**-**
Mark Milliner[c]	**-**	**-**	**-**	**-**	**-**	**-**
Craig Olsen[c]	**130,765**	**13,650**	**22,638**	**(43,650)**	**123,403**	**14,800**
Claire Rawlins[c]	**-**	**-**	**-**	**-**	**-**	**-**
Clayton Whipp	**32,381**	**22,700**	**46,046**	**187**	**101,314**	**1,378**
NON-EXECUTIVE DIRECTORS AND EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL[d]						
Brian Schwartz	**111,171**	**-**	**-**	**2,348**	**113,519**	**110,963**
Yasmin Allen	**41,753**	**-**	**-**	**-**	**41,753**	**40,087**
Michael Wilkins	**2,048,030**	**154,050**	**679,448**	**-**	**2,881,528**	**1,207,840**
Andy Cornish	**203,081**	**49,900**	**282,128**	**(185,000)**	**350,109**	**-**
Alex Harrison	**-**	**-**	**-**	**-**	**-**	**-**
Leona Murphy	**340,660**	**50,850**	**244,090**	**99**	**635,699**	**114,644**

(a) Net movement of shares relates to acquisition and disposal transactions by the KMP and their related parties during the year.

(b) Shares nominally held are included in the column headed total shares held at 30 June and include those held by the KMP's related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the KMP.

(c) Opening number of shares held represents the balance as at the date of appointment.

(d) Information on shares held is disclosed up to the date of cessation.

II. Movements in total number of convertible preference shares

Philip Twyman acquired 994 (2015-1,100) convertible preference shares during the year, indirectly holding a total of 5,109 shares as at 30 June 2016. No other key management personnel had any interest directly or nominally in convertible preference shares at any time during the financial year (2015-nil).

III. Movements in total number of reset exchangeable securities held

No key management personnel had any interest directly or nominally in reset exchangeable securities of IAG Finance (New Zealand) Limited at any time during the financial year (2015-nil).

J. KEY TERMS AND DEFINITIONS

The key terms and definitions used throughout this report are explained below:

TERM	DEFINITION
Actual remuneration	The dollar value of remuneration actually received by the Executives in the financial year. This is the sum of fixed pay plus the cash portion of the STI plus the value of DAR vested during the year plus the value of EPR vested during the year.
At-risk remuneration	Remuneration that is dependent on a combination of the financial performance of the Group, the Executives' performance against individual measures (financial and non-financial) and continuing employment. At-risk remuneration typically includes STI (cash and deferred remuneration) and LTI.
Balanced scorecard	The balanced scorecard sets out the objectives that have to be achieved to meet key strategic priorities of the organisation. All balanced scorecards use goals set against financial and non financial objectives. Achievement against these objectives is measured and this informs the Board's determination of STI outcomes.
Base salary	The cash component of fixed pay.
Cash return on equity (ROE)	Calculated as cash earnings divided by average total shareholders' equity during the financial year. Cash earnings is defined as net profit after tax attributable to IAG shareholders plus amortisation and impairment of acquired identifiable intangible assets and adjusted for unusual items after tax (non-recurring in nature). Cash ROE is used to calculate one half of the outcome in the LTI plan.
Cash STI	The two thirds portion of an Executive's STI outcome that is paid in the form of cash, following the end of year assessment and approval by the Board.
Deferred STI/Deferred Award Rights (DAR)	The one third portion of an Executive's STI that is deferred over a period of two years and awarded in the form of DAR.
Divisional Executives	The Executives with responsibility for managing a division, being the Chief Executive, Australian Consumer Division; Chief Executive, Australian Business Division; Chief Executive, New Zealand; and Chief Executive, Asia.
Executive team	The Divisional and Group Executives who form part of the Group Leadership Team.
Executives	The Group CEO and the Executive team.
Fixed Pay	Base salary plus superannuation. Individuals can determine the mix of base salary and superannuation they receive in line with legislative requirements.
Group CEO	IAG's Managing Director and Chief Executive Officer.
Group Executives	The Chief Financial Officer; Chief Operating Officer; Chief Risk Officer; Chief Customer Officer; Group Executive, Digital & Technology; Group Executive, Office of the CEO; Group General Counsel & Company Secretary; and Group Executive, People, Performance & Reputation.
IAG Spirit	The IAG Spirit, Closer, Braver, Faster is a set of statements that capture a shared view across IAG of how we work together, what we stand for and what makes us unique.
Key management personnel (KMP)	The Group CEO, the Executive team and the Board.
Long term incentive (LTI)/Executive Performance Rights (EPR)	A grant of rights in the form of EPR that is exercisable for IAG ordinary shares or cash between three and four years after the grant date if performance hurdles are achieved.
People and Remuneration Committee (PARC)	The Board committee which oversees IAG's remuneration practices.
Short term incentive (STI)	The part of annual at-risk remuneration that is designed to motivate and reward for annual performance. STI results are determined by performance against a balanced scorecard, based on goals which reflect financial and non-financial measures. For the Group CEO and the Executive team, one third of STI is deferred for a period of two years and two thirds is paid in cash in September.
Total shareholder return (TSR)	Used as one measure of Group performance over a period of time. TSR combines share price appreciation and dividends paid to show total return to shareholders, relative to that of other companies in the peer group. IAG uses relative TSR performance to calculate one half of the LTI outcome.
WACC	Weighted average cost of capital.

RELEVANT INTEREST OF EACH DIRECTOR AND THEIR RELATED PARTIES IN LISTED SECURITIES OF THE IAG GROUP IN ACCORDANCE WITH THE CORPORATIONS ACT 2001

HOLDINGS OF SHARES AND RESET EXCHANGEABLE SECURITIES FOR SECTION 205G OF THE CORPORATIONS ACT 2001

	Ordinary Shares		Convertible Preference Shares		Reset Exchangeable Securities	
	Held directly[(a)]	Held indirectly[(b)]	Held directly	Held indirectly	Held directly	Held indirectly
Elizabeth Bryan	-	**32,725**	-	-	-	-
Alison Deans	-	**37,742**	-	-	-	-
Hugh Fletcher	**36,561**	**45,471**	-	-	-	-
Raymond Lim	-	**35,000**	-	-	-	-
Jonathan Nicholson	**10,427**	**1,041**	-	-	-	-
Tom Pockett	**32,251**	-	-	-	-	-
Philip Twyman	**2,742**	**12,780**	-	**5,109**	-	-
Peter Harmer	**483,167**	**172,800**	-	-	-	-

(a) This represents the relevant interest of each Director in ordinary shares issued by the Company, as notified by the Directors to the ASX in accordance with section 205G of the Corporations Act 2001 until the date the financial report is signed. Trading in IAG shares is covered by the restrictions which limit the ability of an IAG Director to trade in the securities of the Group where they are in a position to be aware, or are aware, of price sensitive information.

(b) These IAG shares are held by the Director's related parties, inclusive of entities controlled, jointly controlled or significantly influenced by the Directors, as notified by the Directors to the ASX in accordance with section 205G of the Corporations Act 2001.

ROUNDING OF AMOUNTS

Unless otherwise stated, amounts in the financial report and Directors' Report have been rounded to the nearest million dollars. The Company is of a kind referred to in the ASIC Corporations Instrument 2016/191 dated 24 March 2016 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that instrument.

This report meets the remuneration reporting requirements of the Corporations Act 2001 and Accounting Standard AASB 124 Related Party Disclosures. The term remuneration used in this report has the same meaning as compensation as prescribed in AASB 124.

Signed at Sydney this 19th day of August 2016 in accordance with a resolution of the Directors.

Peter Harmer
Director