
INQUIRY INTO THE REGULATORY FRAMEWORK FOR
THE PROTECTION OF CONSUMERS, INCLUDING SMALL
BUSINESSES, IN THE BANKING, INSURANCE AND
FINANCIAL SERVICES SECTOR (INCLUDING MANAGED
INVESTMENT SCHEMES)

Australia



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IAG considers that the existing regulatory regime covering general insurance provides a high level of protection to consumers.

The best approach to any reform of the regulatory regime is collaboration between Government, regulators, consumer groups and industry to ensure fair treatment of customers. Better outcomes are likely to be achieved by continuing with a constructive and collaborative approach to reform rather than through a prescriptive regulatory regime that may have unintended consequences.

IAG contends that effective and robust corporate governance depends on corporate culture which values and instils accountability, transparency and risk management and has in place strong and well understood checks and balances. Ultimately, boards and management should be responsible for their own cultures and behaviour, and for openness in corporate governance.

IAG's governance structure has at its core a risk management framework that includes internal policies, key management processes and culture.

IAG takes ethical and responsible decision making very seriously. We expect our employees and directors to do the same, as reflected in our internal policies around ethics, conduct, continuous disclosure and diversity.

IAG believes the existing internal and external dispute resolution frameworks for consumers of general insurance products are operating effectively. A major benefit of the current dispute resolution framework for general insurance is that it delivers a high quality, professional response to complaints and disputes. IAG commits significant resources to develop clear processes and training and to establish specialist teams dedicated to resolving complaints and disputes as quickly and fairly as possible.

IAG's strategic objective is "to deliver world class customer experiences". All the elements of our strategy are driven by our customers' needs. IAG's remuneration policies support the achievement of this strategic objective. By doing this, we will deliver both business performance, shareholder returns and positive customer outcomes.

IAG welcomes the opportunity to provide a submission to the Senate Economics References Committee Inquiry into the regulatory framework for the protection of consumers, including small businesses, in the banking, insurance and financial services sector.

IAG's submission addresses a number of the Inquiry's Terms of Reference that are relevant to the general insurance sector.

IAG supports the submission made by the Insurance Council of Australia.

IAG

Our purpose is to “make your world a safer place”, which means we are working to create a safer, stronger and more confident tomorrow for our customers, partners, communities, shareholders and our people throughout Asia Pacific.

IAG is the parent company of a general insurance group, with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia. The Group’s businesses underwrite over \$11 billion of premium per annum. Our businesses sell insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI in Australia; NZI, State, AMI and Lumley Insurance in New Zealand; Safety and NZI in Thailand; AAA Assurance in Vietnam; and Asuransi Parolamas in Indonesia. IAG also has interests in general insurance joint ventures in Malaysia and India.

Our objective is to make our customers feel safer and more confident through the products and services we deliver. All the elements of our strategy are driven by our customers’ needs. As well as delivering world class customer experiences, we will make IAG as successful as possible so we can reinvest in our leadership position.

To fulfil our purpose, IAG is focusing on two key strategic themes:

- **Leading the change that our 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 we can deliver on these opportunities.** To fuel the investments in our continued leadership, IAG needs to be leaner and more responsive. This involves tackling necessary changes to the way we operate – simplifying processes and systems, and optimising resources, to be more efficient.

IAG has built a strong reputation on understanding the unique needs of Australians and being a steadfast supporter of the community. We take pride in helping consumers understand insurance so they can make confident choices to protect the things they value.

IAG in the Community

As an organisation, IAG has a long history of working proactively to support the communities in which we operate. This role extends beyond providing insurance cover and paying claims, to raising awareness of insurance and risk, and helping communities prevent avoidable damage and mitigate loss. IAG has embedded a shared value strategy within our business by undertaking programs and projects that focus on building social and economic resilience.

We recognise that Australian home owners need transparent, easy-to-comprehend information about insurance to help them better protect their homes, valuables and loved ones. Our Safer Homes website

publishes our average claims and coverage data so that consumers can educate themselves on the right level of insurance for their needs and risk levels.

Other work we are doing includes: partnering with the NSW State Emergency Service to help the community prepare for and recover from natural disasters; supporting safer vehicle technologies via the IAG Research Centre; research and testing to better address insurance accessibility issues; the launch of the low cost insurance product InsureLite (for home) and Insurance 4 That to insure single items; piloting virtual reality technology to explain the risks of underinsurance; and research to understand how we can better meet the insurance needs of Indigenous Australians.

IAG's major focus is to put customers at the centre of what we do by the enhanced use of technology, offering innovative new products through our core businesses, and identifying new ways to meet ever-changing customer needs. In 2016, we developed a new way to bring customers into our conversations and involve them in shaping our business. The IAG Consumer Advisory Board brings together a number of Australia's leading consumer representatives with IAG management to discuss key customer issues in the insurance industry, with the goal of improving customer service and consumer protection. This forum has helped crystallise important opportunities, including employee training and process improvement initiatives to help us better support customers who may be financially vulnerable, or experiencing mental health issues, hardship or a crisis.

At IAG we are also building a closer connection to our customers with the introduction of the IAG Group Leadership Team having the opportunity to create connections, share experiences and learn what our customers value by calling our customers who are advocates and showing our appreciation for their loyalty.

As part of IAG's commitment to delivering outcomes that help communities better prepare for and respond to damaging events and protect the environment; and sustain economies, we are a signatory to a number of industry working groups. For example, in 2012, IAG became a founding signatory to the Principles for Sustainable Insurance, a set of voluntary and aspirational global principles that are part of the United Nations Environment Programme Finance Initiative. In 2016 we engaged with over 2,500 people, within and outside IAG, to better understand resilience and learn how to create more of it in a community. This included a tour of eight of Australia's urban, regional and rural areas to better understand community needs and the role of insurance. This local level research will help us continue to develop accessible and affordable insurance options to give customers the certainty, peace of mind and confidence to prosper.

The Australian general insurance industry does more than just protect the assets and finances of individuals; it also provides significant benefits to the Australian economy. The private sector insurance industry generates gross premium revenue of \$44.1 billion a year and has total assets of \$120.5 billion. The general insurance industry on average pays out \$124.6 million in claims to policyholders each working day¹. IAG also insures nearly \$2 trillion of assets, demonstrating the depth of IAG in insuring the Australian economy.

The role of general insurance

When consumers purchase insurance, they transfer certain risks to an insurer. Insurers identify and manage the costs of those risks to ensure there are sufficient funds to meet the cost of future claims as they arise. To do this, an insurance company has to put a price on the likelihood of someone making a claim, and the cost of that claim. The most significant contributions insurance makes to society is to provide risk sharing, risk transfer abilities and a loss prevention mechanism.

Helping individuals protect what's important

Insurance allows individuals to protect their most valuable assets and avoid the financial burden of repairing or replacing assets damaged in an insurable event. For example, after a natural disaster, most individuals would not have the savings necessary to rebuild their home while simultaneously paying off the mortgage on the original home. Insurance can relieve people of this burden by providing funds to cover the rebuild.

Benefits to Government

In the absence of insurance, governments would have a financial responsibility to rebuild and restore communities following misfortune or disaster. The private insurance market remains the most effective and economically sustainable solution to ensuring the maximum number of Australians choose to cover themselves for risk.

Benefits to the community

Insurers play an important role in identifying, assessing and communicating risk. The price of insurance premiums provides an important signal that can help individuals and communities understand their exposure to a range of risks. It also provides an incentive to individuals to implement preventative and protective measures to reduce vulnerability. IAG is a founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities (Roundtable) and shares the Roundtable's objective for a sustainable, coordinated national approach to making communities more resilient and people safer. The Roundtable believes that national investment in disaster resilience and preventative activities is the most effective way to protect communities and reduce the impact of disasters.

Contribution to the economy and financial stability

A stable insurance industry is essential to support individuals at the most vulnerable time of their lives: when misfortune or disaster occurs. The Australian general insurance industry is well capitalised and highly competitive, in spite of the low interest rate environment and unprecedented natural disasters over recent years.

¹ Insurance Council of Australia data.

The importance of insurance

Continued.



IAG welcomed the assessment in the Financial System Inquiry Interim Report (2014) that general insurance products are distinct in their offering and that the sector overall does not represent a threat to financial stability. Importantly, there are fundamental differences in the types of risks faced by life insurers, general insurers, managed investments, superannuation and banks. IAG remains concerned about the tendency to transfer regulatory concepts from one sector of the financial services industry to another without differentiating between them. While endorsing harmonisation of prudential regulation across financial sectors, IAG believes that regulators should take account of sectoral differences.

The Geneva Association (2012) noted some of those differences:

- the core insurance business has proven its ability to protect policyholders and absorb shocks from natural and man-made events without posing or extending systemic risk;
- insurers do not operate critical financial market utilities that are necessary to payments and clearing systems; and
- in relation to the global financial crisis, core insurance activities were not the source of instability in global markets but rather a stabilising force².

As such, IAG believes that the systemic risk developments in the banking sector or other sectors such as managed funds and investments would be a poor guide to what changes are necessary in the regulation and supervision of general insurance, given the differences in business models and types of institutions.

² Geneva Association, The Social and Economic Value of Insurance, September 2012.

The general insurance market in Australia is mature and sophisticated in terms of its product offering, risk assessment, and management. The sector is competitive and dynamic with ever increasing transparency of pricing and policy features. It is serviced by a large number of insurers, providing a wide range of products to customers. There is intensive price, service and product competition. Customers have access to a healthy range of products from which to choose and they are able to take advantage of special features such as loyalty and multi-policy discounts. The general insurance market is considered to be stable because it is consolidated and disciplined in risk-based pricing of its products.

Consumers also benefit from the level of competition in the industry. The Treasury in its submission to the Financial System Inquiry (2014) highlighted that the Australian general insurance industry is largely open to the entry of new insurers, including foreign insurers. Foreign general insurers are able to establish local branches in Australia, subject to the Australian Prudential Regulation Authority (APRA) being satisfied that they meet certain prudential requirements (including that their assets held in Australia exceed their liabilities in Australia).

APRA has indicated that strong levels of competition are evident in most classes of business. In the personal lines market, the presence of various foreign insurers as well as large retail groups is having a favourable impact on prices and product range as they seek to build market share, particularly in the domestic motor class of business³.

The Treasury recognises that competition has intensified broadly across the general insurance sector in recent years with new entrants offering a range of general insurance products and capturing market share by advertising aggressively and offering cheaper premiums and/or enhanced product features. The Treasury also highlighted that “The contestability in the general insurance market is reflected in trends in profitability, notwithstanding a popular perception that a lack of competition is driving rising premiums.”

³ APRA Insight, Issue 3, 2013.

The Inquiry's Terms of Reference seeks information in relation to the current laws and regulatory framework.

Financial system regulatory framework

The Wallis Financial System Inquiry (1997) provided a comprehensive investigation into the regulation of the Australian financial services sector. Most notably, it advocated a “principles-based” approach to regulation emphasising competitive neutrality, cost effectiveness, transparency, flexibility and accountability. The Financial Sector Advisory Council (FSAC) then undertook a review of the outcomes of the Financial System Inquiry (the Wallis Inquiry) in 2003. The FSAC noted that the Australian regulatory system is fundamentally well placed to meet the challenges of the future. However, in its report, FSAC recommended, that there was scope for the regulatory agencies to improve their exchange of information.

The Financial System Inquiry (2014) noted the financial sector has served Australia well, and that it has been transformed by forces such as the domestic and international economic and financial crisis, a substantial regulatory reform agenda, the growth in superannuation, changes in industry structure, new competitive dynamics, technology, innovation and broader macroeconomic trends.

Regulatory framework – The general insurance industry

General insurers are subject to the corporate regulatory regime that applies to Australian incorporated businesses generally. This includes the legislative regimes of the *Corporations Act 2001*, the *Australian Securities and Investments Commission Act 2001 (the ASIC Act)*, the *Competition and Consumer Act 2010* and, for public listed companies, the requirements of the Listing Rules and Corporate Governance Principles and Recommendations of the Australian Securities Exchange (ASX).

In particular, general insurers must hold an Australian Financial Services (AFS) licence in accordance with the *Corporations Act 2001 (Corporations Act)*. Section 912A of the Corporations Act provides, among other matters, that an AFS licensee must have a dispute resolution system consisting of specified internal dispute resolution procedures and membership to one or more Australian Securities and Investment Commission (ASIC) approved External Dispute Resolution schemes. As AFS licensees, general insurers dealing with retail clients are members of the Financial Ombudsman Service.

General insurers are also subject to a range of industry specific regulations at Federal (e.g. Insurance Act 1973, Insurance Contracts Act 1984 (the Insurance Contracts Act)), State and Territory levels. These regulations subject insurers to prudential supervision. They also deal with aspects of market conduct and consumer protection and the various statutory insurance schemes which operate in each State and Territory.

In particular, the Insurance Contracts Act places an obligation on insurers and those they insure to act with utmost good faith towards each other, preventing either party from relying on a contract provision that would be contrary to this requirement. This duty is an historic and fundamental principle of insurance that is codified in the Insurance Contracts Act.

The general insurance industry also adopts the Insurance Council's General Insurance Code of Practice (The Code). We note that adoption of the Code is voluntary and, while not all general insurers are signatories, IAG believes that industry self-regulation provides a benchmark standard. Once this standard is set, there is a strong incentive for individual companies to exceed the benchmark in order to attract customers and expand market share. IAG acknowledges the important role The Code plays in improving service standards in the insurance industry. We have adopted The Code and we have a long standing commitment to complying with it. IAG supports the targeted review of The Code that will be undertaken in 2017.

IAG considers that the existing regulatory regime covering general insurance provides consumers with a high level of protection. Moreover, consumers are likely to receive additional protection when financial services products issuers and distributors become subject to additional obligations under the Australian Government's proposed "Design and Distribution Obligations and Product Intervention Power".

Any regulatory or legislative proposal which will have the effect of increasing the regulatory or administrative burden on business should only be implemented where material or prudential benefits are expected to outweigh the costs. There has been a significant increase in compliance costs over recent years. The costs of regulatory change include:

- Increase in the number of compliance officers required to ensure companies meet regulatory requirements – monitoring is a key component of the work;
- Development and implementation of training resources and materials – may include on-line training modules and purchase of software licences;
- Training of employees and authorised representatives;
- Development of incident reporting tools and the monitoring, reporting and rectification of incidents;
- Preparation of manuals for employees and authorised representatives;
- Preparation and printing of documentation to adhere to regulatory requirements – excluding existing requirements such as the Insurance Contracts Act 1984;
- Marketing materials – inclusion of disclaimers, consideration of the nature of the proposed marketing campaign and relevant regulatory requirements;
- Preparation of scripts for telephone sales and enquiries; and
- Audit reporting including retention of auditors, development of processes to support audits, employee and management time.

Compliance costs can be significant. For example, it cost IAG between \$17 - \$20 million to implement the Financial Services Reform over a period of approximately two years.

The aim of financial sector regulation is to reduce the impact of systemic risk and information asymmetry on the stability and efficiency of the financial system. IAG supports this but notes an appropriate balance needs to be maintained between the efficiency costs and the benefits to financial safety.

The Inquiry's Terms of Reference seeks information in relation to conduct and culture.

Corporate governance at IAG

IAG contends that effective and robust corporate governance depends on a corporate culture which values and rewards accountability and transparency and has in place strong and well understood checks and balances. Ultimately, employees from the board to the frontline should be responsible for reflecting their organisation's own cultures and behaviour, and for openness in company governance.

No one company or individual is perfect. At IAG we ensure that we put our mistakes right and learn from them. We work quickly not only to put things right for our customers but also to identify the cause of any problems, make the appropriate changes to the way we do business and look proactively to enhance customer experiences.

Governance structure and risk management framework

IAG is committed to attaining the highest level of corporate governance to help ensure the future stability of the organisation. We meet all the ASX Corporate Governance Council's principles and recommendations for good corporate governance.

IAG's corporate governance structure has at its core a risk management framework that includes internal policies, key management processes and culture. Our Risk Management Strategy is reviewed annually or as required by the Risk Committee before being recommended for approval by the Board. IAG's risk and governance function provides regular reports to the Risk Committee 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 on significant audit findings and other audit related matters.

IAG's corporate governance structure and risk management framework are designed to provide a sustainable balance between our core business (to pay claims, understand and price risk, manage costs and reduce risk) and our responsibility to provide fair and stable returns to shareholders. To achieve this, IAG employees must demonstrate the 'IAG Spirit': to be closer, braver and faster in all of their interactions with customers, partners, and shareholders. IAG bi-annually assesses each employees' achievement against these criteria. In addition, IAG actively monitors corporate culture through monthly dashboards and regular forums at the management, leadership and Board levels.

Our approach to governance is based on the view that it must be more than just compliance. While we already have the systems to help comply with a multitude of regulations, codes, rules and practices which govern how we operate, we believe the best protection for a company is a healthy risk culture based on strong values and a commitment to achieving the company's goals.

Details of IAG's corporate governance structure and risk management framework are outlined in Appendix.

Ethics Committee

IAG is acutely aware of the important role culture plays in how a business operates and performs. We believe we have a very effective and caring culture and have taken steps to ensure this assessment is correct. Mindful of wider community discussions about corporate culture, we have established an Ethics Committee, chaired by renowned ethicist Dr Simon Longstaff AO, Executive Director, The Ethics Centre.

The purpose of the Ethics Committee is to provide leadership, advice and guidance to IAG Management to foster sound, ethical decision making, consistent with IAG's vision, purpose and values and stakeholder expectations. The Committee's role is one of oversight and advice, recognising that management is responsible for leading ethical behaviour and culture across IAG.

Code of Ethics & Conduct

IAG is currently reviewing its Code of Ethics & Conduct.

Ethical conduct is an integral component of running our business successfully for the long term. We want everyone who interacts with our people to be assured that we are acting with integrity and in a responsible and ethical way.

Our Code of Ethics & Conduct (the Code) provides a framework to help our people make good and informed business decisions and to act on them with integrity.

The Code sets out basic ethical principles to guide all of our people when they make judgements and act in any given situation. These principles help us determine the most appropriate way to deliver on our promises of paying claims, understanding and pricing risk, managing our costs and reducing risk.

Everyone at IAG is responsible for achieving the highest levels of business conduct and is accountable for ensuring that their decisions and actions are consistent with the ethics principles set out in the Code.

The Code is designed to encourage ethical and appropriate behaviour in all our locations and in all avenues of work, based on the principles of:

- acting honestly and openly in all dealings;
- complying with all laws and industry codes that regulate our activities;
- abiding by our rules to prevent insider trading;
- maintaining confidentiality; and
- avoiding conflicts of interest.

IAG takes ethical and responsible decision making very seriously. We expect our employees and directors to do the same, as reflected in our internal policies around ethics, conduct, continuous disclosure, diversity and insider trading.

Continuous Disclosure Policy

IAG prides itself on being transparent and the company's continuous disclosure policy sets out the mechanisms through which IAG ensures shareholders, customers and the market are kept informed of all relevant information which may have a material impact on IAG's share price.

Diversity, Inclusion & Belonging Policy

IAG's Diversity, Inclusion & Belonging policy captures our commitment to creating a workforce and culture where we respect and value the different experiences of our people. The policy harnesses the opportunity and business benefits that diverse ideas and perspectives bring to our organisation, stakeholders and customers.

At IAG, we are concentrating on improving gender, age and ethnic diversity in our organisation. We believe that improvement in these areas supports our workforce sustainability and builds competitive advantage by leveraging thinking and aligning more closely with our customer base.

Security Trading Policy

The company's security trading policy reinforces the responsibility of all directors, employees and contractors to exercise care when in possession of inside information and sets out a protocol for dealing in IAG securities by designated persons.

Whistleblower Policy

IAG supports an organisational culture where people perform their duties in an ethical and appropriate manner and are encouraged to report inappropriate behaviour. IAG uses ActionLine, an independent whistleblower hotline set up through Deloitte, to help support this culture.

IAG employees have a responsibility to report unethical behaviour, whether to their manager or through ActionLine. ActionLine also meets IAG's legal obligation to implement a global whistleblower protection framework.

Consumer Advisory Board

In June 2016, we established the IAG Consumer Advisory Board to bring together a number of Australia's leading consumer representatives and IAG management to discuss key customer issues in the insurance industry, with the goal of improving customer service and consumer protection. We are acutely aware of the important role culture plays in how a business operates and performs.

The IAG Consumer Advisory Board is a forum, led and chaired by IAG's CEO, to engage with industry leaders and senior representatives of our customers. It aims to provide an opportunity for genuine and constructive dialogue about general insurance, customer service and consumer protection, as well as issues of significance to IAG's consumer insurance and commercial insurance products.

While there has been steady improvement across many of IAG's key customer service indicators, we recognise there is a lot more to be done. The Consumer Advisory Board is a core component of our ongoing commitment to put the customer at the heart of everything we do.

IAG is dedicated to improving the service it offers customers, using research on customer insights, the development of customer journey maps along with many other measures to improve customer and partner experience. IAG is investing in data and analytics capability to deepen its understanding of customers, working to simplify customer engagement processes and communication and undertaking continuous improvement in understanding our customer's risk. The Consumer Advisory Board will complement this activity.

Product Design Principles

IAG has recently developed Product Design Principles to better align the conduct of our employees and product offerings. The Product Design Principles guide IAG's employees when selling, distributing or advising on any IAG product. In developing our insurance products, we have a number of well-established underwriting, governance and regulatory compliance processes in place. The Product Design Principles will help us evaluate whether our products are meeting customer needs and offering them fair value.

The Inquiry's Terms of Reference seeks information in relation to consumer redress.

Consumer redress: internal and external dispute resolution

IAG believes the existing Internal Dispute Resolution and External Dispute Resolution frameworks for consumers of general insurance products are operating effectively. The General Insurance Code Governance Committee's 2014-15 General Insurance Industry Data Report highlights that the general insurance industry issued or renewed around 52 million general insurance policies in the year to 30 June 2015 (the most recent year for which data is available). The majority of these (around 48 million) were personal insurance policies in the motor, travel and home insurance classes. Of the total number of policies, consumers and businesses lodged around four million general insurance claims. Of these claims, 97 per cent were paid.

The Insurance Council of Australia in its submission to the Australian Consumer Law Review Interim Report noted "Of the 3 per cent of claims that were not paid, a small proportion of these (23,105) resulted in internal disputes received by general insurers. The vast majority of these disputes (98 per cent) were handled by general insurers own internal dispute resolution processes.

The number of internal disputes received by general insurers, represented as a proportion of the total number of general insurance policies issued or renewed in 2014-15, was therefore 0.04 per cent (or four disputes received for every 10,000 policies issued or renewed). Furthermore, the number of disputes which went on to be accepted for resolution by the Financial Ombudsman Service (FOS) in 2014-2015 was 6,780 (or 0.01 per cent of the total number of general insurance policies issued or renewed that year).

Internal dispute resolution

IAG is committed to bringing feedback from customers into daily decisions. Customer complaints are considered a key feedback element. They complement existing customer surveys and provide the business with real-time insight into how we are treating our customers and whether our services are meeting their expectations. Complaints enable us to identify customer irritants and fix them. More broadly, analysis of complaints and disputes allow us to review and understand any significant trends in the way we deliver our services.

Our goal is to resolve complaints at the first point of contact. Our frontline employees receive ongoing training and support to be able to do this. If frontline employees or their managers cannot provide the assistance the customer needs at the first point of contact, the complaint will be managed by our specialist Internal Dispute Resolution teams. These teams have the highest professional standards, are led by senior leaders and are made up of customer relations professionals. All undertake rigorous training to ensure they have the skill and empathy needed to advocate for customers and resolve their issues quickly and efficiently.

Each complaint is treated on a case by case basis. The majority of complaints, particularly relating to home and motor insurance, are resolved internally with only a small number escalated to the FOS. More than 99 per cent of claims are lodged and finalised without dispute, in excess of 96 per cent without complaint. In relation to the hundreds of thousands of claims lodged every year for home and motor insurance, the last three years have seen an average of 4 per cent of complaints going to External Dispute Resolution.

External dispute resolution

The current external dispute resolution scheme works well for consumers and the general insurance industry. The scheme provides strong incentives to industry participants to resolve complaints and disputes at the earliest possible stage through internal complaint handling mechanisms, while at the same time providing free and easily accessible redress for consumers. Additional benefits of the current scheme are detailed below.

General insurance disputes are dealt with in a particular stream/division of the FOS which accommodates the specific issues that arise from these matters. The teams have a highly developed understanding of insurance, as opposed to other financial services products such as banking, financial planning, mortgage and finance broking etc. This ensures a more tailored service for general insurance policy holders and therefore results in a more efficient and equitable review of complaints and disputes.

The FOS is funded by members of what through membership and dispute fees. Members are therefore directly accountable for their own number of disputes proceeding at the FOS and are not (aside from general membership fees) funding disputes of other providers. This in essence creates a 'user-pays' system.

The current FOS model allows direct engagement between members, decision makers, consumers and other representatives via direct meetings, workshops, and industry forums as well as the new conciliation model. All of these activities to provide strong relationships between the FOS and its members lead to better consumer outcomes.

The FOS decisions are binding, which provides customers with a great deal of confidence in the scheme. A significant number of resolutions occur through negotiation and agreement between the parties. Of those that are contested, 40 per cent are found in favour of consumers. Consumers also have the ability to challenge decisions through the Supreme Court or through state civil tribunals.

IAG recognise the importance of having an effective external dispute resolution process which provides fair and accessible dispute resolution to consumers. and strongly supports the existing external dispute resolution framework.

The Inquiry's Terms of Reference seeks information in relation to executive, non-executive remuneration and incentive based structures.

Executive remuneration and non-executive remuneration

IAG's remuneration policies support the achievement of IAG's strategic priorities, to drive business performance, customer service and shareholder returns. A key factor in achieving this is ensuring IAG can attract and retain high quality employees who can drive these outcomes.

Remuneration guiding principles

IAG's remuneration practices have been designed to achieve the following objectives:

- 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.

Non-Executive Director Remuneration

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;
- not be based on performance to ensure director independence is not compromised; and
- create alignment between the interests of Non-Executive Directors and shareholders through the mandatory shareholding requirement

Details of IAG's non-executive remuneration is outlined in Appendix.

Executive Remuneration

IAG further recognises that executive remuneration is guided by regulation and market forces and we regularly review our executive remuneration to ensure we use at-risk remuneration components to achieve remuneration and performance objectives.

Increasingly important in IAG's approach to remuneration is the outcomes achieved for our customers. This is a strategic priority for the company and focuses our employees' efforts to achieve positive customer outcomes.

Performance Measures

The primary measure of performance for executives is the Group's Balance Scorecard (BSC). The final BSC is signed off by the Board and then cascaded to the business. The BSC includes 60 per cent financial measures and 40 per cent non-financial measures. The non-financial measures include Customer and Partner Advocacy (20 per cent), Culture (10 per cent) and Governance (10 per cent). The results of the BSC determine the reward provided for under the Short Term Incentive (STI) program for our executives. In addition, this represents a portion of the STI for the majority of employees in the Group.

To receive any STI payment in a given year, employees must demonstrate they have met the IAG Spirit. This approach is designed to:

- create alignment across IAG on how we work, what we stand for and what makes us unique;
- operate as a threshold for behavioural requirement and signals the importance of the IAG Spirit for individual and organisational success; and
- focus employees on the 'how' of work – behaviours that align to IAG's values including creating world leading customer experiences.

The IAG Spirit was first introduced in 2016 and resulted in a number of our employees being identified as not demonstrating the Spirit in its first year. This identification allows remedial action and focuses employee and manager attention on the issues so improvements can be made.

Details of IAG's executive remuneration are outlined in Appendix.

Employee Incentive Plans

The majority of employees participate in a Corporate Incentive Plan, with the remainder participating in Sales Incentive Plans (described in more detail below). The Corporate Incentive Plan has a 30 per cent weighting towards the IAG BSC, incorporating 40 per cent non-financial measures that include Customer Advocacy, Culture and Governance. To support the culture of long term decision making, senior employees have a portion of their Corporate Incentive Plan deferred over a period of up to two years, subject to clawback.

Sales Incentive Plans

During the current financial year IAG has embarked on a review of employee sales incentive programs encompassing sales plans and commission arrangements. The review will ensure that IAG's incentive schemes do not motivate employees to act in a manner that could be contrary to the best interests of customers. At the date of this submission, 57 per cent of these plans have been reviewed to ensure that where there is a volume metric, such as gross written premium, there is also a customer metric that provides a balance between productivity and customer outcomes. The customer metric used is either Net Promotor Score or Customer Advocacy Score which both reflect the customer experience. The remaining 43 per cent of plans will be reviewed and adapted if necessary by the end of this financial year.

APPENDIX

CORPORATE GOVERNANCE

INSURANCE AUSTRALIA GROUP LIMITED'S APPROACH TO CORPORATE GOVERNANCE

Insurance Australia Group Limited (IAG, the Group, or the Company) is committed to attaining the highest level of corporate governance to help 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”

The regulatory environments in which IAG conducts its businesses continue to have a major influence on the Group's corporate governance practices. Sound regulatory regimes are required to assist with the stability and sustainability of the general insurance sector in the countries in which IAG operates.

IAG believes that active engagement with governments, regulators and industry and professional groups helps ensure that the interests of IAG and its stakeholders are properly considered in the formulation of proposals to improve corporate governance, the general insurance regulatory and prudential regimes and insurance industry practices. In this context, IAG strives for regulation that enhances rather than stifles competition, protects consumers, encourages efficiency and promotes and sustains public confidence in general insurers and their products.

IAG actively participates in the debate to improve Australia's corporate governance regime, making submissions to Federal and State government committees, reviews and inquiries, and regulators in relation to new legislation, particularly regulation affecting the general insurance industry. As part of IAG's commitment to open and transparent communication, all Australian public government submissions are available in the News & Events area of IAG's website at www.iag.com.au. IAG has also contributed to changes to the New Zealand regulatory and legislative framework.

IAG does not make direct donations to any political party. However, IAG does engage in the democratic process by participating in lunches, dinners, conferences or other events with political parties. IAG representatives will make a financial contribution to attend certain of these functions. Consistent with Australian legislative requirements, IAG discloses all political contributions that are made to political parties. These are displayed on the Australian Electoral Commission website

IAG representatives participate in forums, working parties and committees of domestic and overseas insurance industry associations, as well as accounting, actuarial and legal professional bodies, to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices relevant to the general insurance industry. Consistent with this and our purpose, IAG is a member of the UNEP Finance Initiative and became a founding signatory to the United Nations Principles for Sustainable Insurance (UN PSI) in June 2012. IAG's Group Executive for People, Performance and Reputation, Jacki Johnson is a member of the UNEP FI Global Steering Committee and IAG's Chief Customer Officer, Julie Batch is a member of the UNEP Board.

IAG's corporate governance policies are on IAG's website (www.iag.com.au select About us). They are not an exhaustive list of all corporate governance practices in place at IAG. Copies of IAG's Board and Board Committee charters are also available in the same area of the website. For the financial year ended 30 June 2016, IAG has complied with the Australian Securities Exchange Corporate Governance Council (ASXCGC) Principles and Recommendations (3rd edition).

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 THE BOARD

The Board is responsible for protecting the interests of policyholders and shareholders and for the performance, operation and affairs of IAG. The Board's principal role is to provide leadership and to govern, rather than manage, IAG. The Board represents and serves the interests of the shareholders, collectively overseeing and appraising strategies, policies and the performance of IAG.

The Board is responsible for oversight of IAG, including:

- driving and monitoring the strategic direction of IAG and approving Group strategies;
- approving significant corporate initiatives including major acquisitions, divestments and capital management transactions;
- setting IAG's risk appetite;
- selecting appropriate candidates and recommending to IAG shareholders the election, re-election or removal of Non-Executive Directors;
- appointing the Chairman, evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Non-Executive Directors;
- overseeing the integrity of IAG's accounting and reporting systems, including the external audit process;
- review and approval of IAG's remuneration policies and framework;
- monitoring management's performance and the exercise of the Board's delegated authority;
- evaluating regularly and, if necessary, replacing the Chief Executive Officer (CEO);
- reviewing CEO, Chief Financial Officer (CFO) and senior management succession planning; and
- setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, workplace health & safety, social and environmental responsibility) are adhered to at all times.

Find out more about these responsibilities in the Board Charter on IAG's website at www.iag.com.au/about-us/corporate-governance.

THE CEO

The Board has delegated responsibility for the overall management and profit performance of IAG, including all day-to-day operations and administration, to the CEO, who is responsible for:

- the efficient and effective operation of IAG;

- fostering a culture that supports IAG's commitment to be closer, braver and faster in all its interactions with customers, partners, and shareholders;
- ensuring the ongoing development, implementation and monitoring of IAG's risk management and internal controls framework;
- ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision making by the Board; and
- ensuring all material matters affecting IAG are brought to the Board's attention.

The CEO manages IAG in accordance with the policies, budget, corporate plan, strategies and risk appetite approved by the Board, and has the power to manage IAG, subject to the limits set out in the Charter of CEO Delegated Authority Limits attached to the Board Charter.

1.2 APPOINTMENT OF DIRECTORS

The Board assesses the skills required to competently discharge its duties, having regard to IAG's performance, financial position and strategic direction, including the specific knowledge, skills and experience that the Board determines one or more of the Non-Executive Directors must possess.

The Board assesses candidates for appointment to the Board, either when a vacancy arises or if it considers that the Board would benefit from the services of a new Director. Particular attention is given to the mix of skills, experience, diversity and expertise of existing Directors and how the candidate's competencies will complement and balance these qualities. External consultants are also engaged, on an as required basis, to assist with candidate identification. All selected candidates for Board positions undergo appropriate background checks, including IAG's Fit & Proper assessment, before being appointed to the Board. Any Director appointed during the year to fill a casual vacancy or as an addition to the existing Directors must stand for election at the next annual general meeting (AGM).

The notice of AGM includes the appointment date and biographical details, including the relevant qualifications and experience and details of any other directorships held, of any new Non-Executive Directors and Non-Executive Directors seeking election or re-election. The Board discloses all information relevant to a decision on whether or not to elect or re-elect a Director in the Notice of AGM and advises shareholders of whether it supports the election or re-election of each Non-Executive Director.

1.3 APPOINTMENT TERMS

Formal appointment letters have been issued to and signed by each Non-Executive Director, including the Chairman, to assist Non-Executive Directors in understanding the role of the Board and the corporate governance principles and practices it has adopted. The letters formally document the basis of each Non-Executive Director's appointment, including:

- the role of the Board and of Non-Executive Directors;
- corporate governance principles followed by IAG;
- the Chairman and the majority of the Non-Executive Directors are independent of the management of IAG;
- the right of Non-Executive Directors to obtain independent professional financial and legal advice, at the Company's expense, to assist with discharging their duties efficiently;
- the right of access to management and IAG records;
- the indemnity and insurance arrangements available;
- the measures used, and the processes to be applied, by the Board to assess the individual performance of Non-Executive Directors, details of which are set out in section 1.6 below;
- the term of appointment and remuneration including superannuation rights;
- the circumstances that would cause a Non-Executive Director's position to become vacant;
- the confidentiality of Board papers and presentations to the Board; and
- the requirement that Non-Executive Directors abide by IAG's Code of Ethics and comply with its Continuous Disclosure and Security Trading Policies.

Employment agreements for the CEO and Executive team are for unlimited terms but may be terminated by written notice by either party. Details of these employment agreements are outlined in the Remuneration Report.

1.4 COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring Board and Board Committee procedures are complied with and also providing advice and counsel to the Board in relation to the Company's constitution, corporate governance and other matters.

The Company Secretary is also responsible for the timely dispatch of Board and Board Committee papers and the accurate recording of business discussed at the Board and Board Committee meetings in the minutes.

The Company Secretary also assists in the induction and ongoing professional development of Directors. The qualifications and experience of IAG's Company Secretary are set out in the Directors' Report. All Directors have unfettered access to the Company Secretary and the appointment and removal of the Company Secretary is decided by the Board.

1.5 DIVERSITY

Diversity is a key aspect of IAG's strategy. IAG's diversity ambition is to respect and value the different experiences of our people as well as harness the opportunity and business benefits that diverse ideas and perspectives bring to our organisation stakeholders and customers. IAG's diversity policy statement can be found on IAG's website at www.iag.com.au/about-us/corporate-governance/codes-and-policies.

Diversity activity

IAG's diversity and inclusion strategy and program of work aims to challenge bias, particularly in the areas of gender, age and cultural diversity. Whilst continuing our previous work and ongoing initiatives, IAG undertook a number of initiatives, including:

- Continued to advance toward gender parity within an IAG Group target of 38% women in senior management roles by 2020. This

target was composed of regional sub targets of 40% for IAG Australia and New Zealand, and 30% for Asia. As at 10th June 2016, women filled 32.5% IAG's senior management roles across the Group. This is further broken down to represent 32.8% in our Australian businesses, 36.6% in New Zealand and 27.3% in Asia.

- Rolled out Inclusive Leadership training, accrediting more than 100 business facilitators and running sessions across Australia and NZ to enable leaders at all levels to address unconscious bias and be more inclusive leaders.
- Introduced new initiatives to address broader diversity & inclusion segments, including CareerSeekers internships for students and mid career-professionals on refugee and asylum seeker visas, partnering with Australian Network on Disability on High Growth Jobs, Talented Candidates, becoming a major partner of Out for Australia.
- Piloted Workflex, a suite of work practices aimed at providing more effective flexibility principles for our people.
- Continued our commitment to support Indigenous communities through the launch of IAG's second Reconciliation Action Plan (RAP), an Elevate RAP. We will continue to partner with our four primary RAP partners: CareerTrackers, Jawun, NPY Women's Council and the Australian Indigenous Mentoring Experience to work toward our RAP vision to the empowerment of Aboriginal and Torres Strait Islander peoples, businesses and communities.

The IAG Diversity and Inclusion Action Group includes senior representatives from each of the key businesses and its progress is monitored by the IAG Board People and Remuneration Committee (PARC).

Diversity targets

IAG continues to be committed to increasing the representation of women in senior management positions. IAG measures this by tracking the gender of management staff, with the goal that 33% of senior management roles should be filled by females.

This year, we reported that women filled 31.5% of our senior management roles, across the Group and 33.3% in our businesses in Australia and New Zealand. While our Group result is not quite at the goal we set in 2010 to have 33% of senior management roles filled by women this year, we have improved significantly from the 27% we reported in 2010. We remain committed to increasing the representation of females in senior management positions and are developing a range of initiatives to take us forward. A summary of the percentage of women in IAG's workforce is provided below:

| DIVERSITY OBJECTIVES | ACTUAL 2016* | ACTUAL 2015* |
|-----------------------------|-----------------|-----------------|
| Women in workforce | 59% | 59% |
| Board positions | 25% | 33% |
| Executive positions | 21% | 13% |
| Senior management positions | 32% | 31% |

*These figures cover the workforce in Australia, New Zealand and Asia.

The role of senior management positions at IAG is generally identified as the internal HR position code CEO-3 and above, however there are exceptions to this rule.

1.6 MEASURING THE PERFORMANCE OF NON-EXECUTIVE DIRECTORS

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 Group Executives; 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.

In between Formal Reviews, the Board annually conducts an internal review of its performance and that of the Board Committees. In addition, each Non-Executive Director's performance is annually evaluated by the Chairman and then discussed between the Chairman and the Director.

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, fulfillment of the additional role as Chairman.

Individual Non-Executive Directors also evaluate the Chairman's performance annually. The Boards and Committees of key operating subsidiaries also regularly review their own performance.

1.7 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES

Financial and non-financial goals are set through the completion of an individual balanced scorecard for each Group Executive in conjunction with the CEO at the commencement of each financial year. The goals are stretch goals and are designed to encourage Group Executives to strive for exceptional performance while ensuring IAG's long term financial soundness. Achievement against these goals is the basis for assessing an individual Group Executive's performance. The methods of assessment have been selected so that performance can be objectively measured and verified. At the end of each financial year the CEO completes a formal review of each Group Executive's performance against the balanced scorecard goals set at the commencement of the year and for allocating long term incentives to Group Executives. The Group Executive assessments are reviewed by the PARC and approved by the Board. These assessments are the basis for determining any short term incentive payments.

Financial and non-financial goals and the performance of the CEO are determined and assessed by the Board using the same approach. Further detail on the CEO's and Group Executives' short and long term incentives is set out in the Remuneration Report.

PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE

2.1 NOMINATION COMMITTEE

The Nomination Committee currently comprises all the Non-Executive Directors as well as the Managing Director and CEO, Peter Harmer.

The role of the NC is to support the Board in fulfilling its statutory and fiduciary responsibilities by ensuring that there are appropriate processes for: Board renewal and succession; assessment of Board and Director performance; and Director induction and continuing education programs. All members of the Nomination Committee have the skills and experience necessary to fulfill their role on the Committee. Director's qualifications and experience are shown in their biographies in the Directors' report.

The Nomination Committee assesses director candidates and makes recommendations to the Board for appointment, either when a vacancy arises or if Nomination Committee considers that the Board would benefit from the services of a new Director. The Board has adopted a framework for effective Director selection and Board succession to help ensure that the Board's skills, competencies and knowledge match IAG's strategic objectives. Some key tenets of the framework are:

- determining the skills, competencies, behaviours and experience required for an effective Board and the nature and measurement of these competencies;
- the Board should demonstrate diversity in age, personality, gender, work and life experience and comprise people who think differently to each other and have diverse backgrounds; and
- the adoption of a formal approach to Director selection and a systematic and strategic approach for Board succession.

The Nomination Committee also reviews all Directors submitting themselves for election and re-election at an AGM, prior to consideration by the Board.

The Nomination Committee met twice during the reporting period. Member attendance at each meeting is shown in the Directors' Report.

The Nomination Committee Charter, which provides details of the NC's responsibilities, is available on IAG's website at www.iag.com.au.

2.2 BOARD SKILLS

The Board currently comprises seven independent Non-Executive Directors, and an Executive Director, Mr Peter Harmer, IAG's Managing Director and CEO.

The Board's policy is to help ensure that the Board comprises Directors who collectively have the relevant experience, knowledge, diversity and skills required for IAG. This takes into account IAG's current size, market position, complexity and strategic focus. In reviewing its composition, skills and requirements for Director succession, the Board is also mindful of the corporate governance practices and requirements for Directors.

The skills, competencies and composition of the Board are regularly reviewed to ensure that the Board continues to have an appropriate

mix of skills, knowledge, diversity and experience and to identify any gaps or opportunities to enhance Board skills. A comprehensive review of Board skills was undertaken in July 2016. The review focused on differentiating the key skills collectively required by the Board and ensuring those skills align to IAG's current strategic direction and its operational and risk environments. This resulted in the addition of leadership skills as a core competency of the Board. The core competencies and experience required, and collectively possessed, by the Board are in the areas of:

| | | | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|----------|----------|--|
| Risk & Finance | | | | | | | | | |
| Insurance | | | | | | | | | |
| Digital | | | | | | | | | |
| Business Development | | | | | | | | | |
| Strategy | | | | | | | | | |
| International experience | | | | | | | | | |
| Marketing & customer | | | | | | | | | |
| Asian/emerging markets | | | | | | | | | |
| Business/commercial acumen | | | | | | | | | |
| General Management | | | | | | | | | |
| Strategic HR | | | | | | | | | |
| Leadership skills | | | | | | | | | |
| Number of Directors with requisite skills | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |

Additional competencies and experience identified for, and collectively possessed by, the Board are in the areas of:

| | | | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|--|
| Experienced CEO (listed entity) | | | | | | | | | | |
| Experienced Board/Committee chairperson (listed entity) | | | | | | | | | | |
| Government Relations | | | | | | | | | | |
| Asset & Investment Management | | | | | | | | | | |
| Strategic IT | | | | | | | | | | |
| Legal | | | | | | | | | | |
| Number of Directors with requisite skills | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |

In addition to the competencies detailed above, the Board seeks to ensure that it has a broad and diverse membership which brings different perspectives and experiences to Board deliberations.

2.3 BOARD OF DIRECTORS

Directors are expected to continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of IAG's shareholders.

The Board has a tenure policy for Non-Executive Directors to help ensure the Board comprises Directors who collectively have the relevant experience and skills required and assist in maintaining the independence of the Board. The policy, among other things, provides a standard tenure for a Non-Executive Director of up to 10 years, although the Board has the discretion to invite Non-Executive Directors to stand for an additional term which may take their total tenure beyond 10 years. Details of the current Non-Executive Directors' tenure are shown below:

| INDEPENDENT NON-EXECUTIVE DIRECTORS | TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT) |
|-------------------------------------|---|
| Elizabeth Bryan (Chairman) | 1 year and 7 months |
| Hugh Fletcher | 8 years and 10 months |
| Philip Twyman | 8 years |
| Alison Deans | 3 years and 5 months |
| Raymond Lim | 3 years and 5 months |
| Thomas Pockett | 1 year and 6 months |
| Jonathan Nicholson | 10 months |

The names of Directors in office at the date of this report, their year of appointment, experience, expertise and biographical details are set out in the Directors' Report.

Potential conflicts of interests

Directors are required to disclose all their interests on an ongoing basis and, in particular, are required to disclose interests that could conflict with IAG's interests. Where the Board is required to approve a transaction or arrangement with an organisation in which a Director has an interest, the relevant Director must disclose his or her interest and abstain from voting, unless the Board determines otherwise. That Director will also be excluded from receiving any papers with regard to the conflicted transaction or arrangement. Directors with potential conflicts do not serve on any Board Committees that are appointed to oversee the implementation of transactions or arrangements with which the Directors' interests may conflict.

2.4 DIRECTOR INDEPENDENCE

The Board has determined that it must comprise a majority of independent Non-Executive Directors and that the Chairman must be an independent Non-Executive Director. The Non-Executive Directors are free of any business or other relationship that could materially interfere with the independent exercise of their judgement. All current Non-Executive Directors have confirmed their continued independence.

The Board determines whether each Non-Executive Director is independent using the principles outlined in its Charter.

2.5 THE CHAIRMAN

The Chairman is an independent Non-Executive Director and is responsible for ensuring the Board fulfils its responsibilities to IAG and stakeholders. The Chairman provides leadership to the Board and promotes constructive and respectful relations between Directors and between the Board and management. The Chairman presides at Board and general meetings of IAG.

2.6 NON-EXECUTIVE DIRECTOR INDUCTION, EDUCATION AND TRAINING

IAG encourages continuing professional education for each of its Directors. All Directors are expected to remain up-to-date in relation to issues affecting IAG, the general insurance industry and their duties as Directors. Directors participate in ongoing education activities, including with local and overseas experts in particular fields, which are relevant to IAG's operations. A letter of appointment notes the right of Non- Executive Directors to obtain independent professional financial and legal advice, at the Company's expense, to assist with the efficient discharging of their duties.

New Non-Executive Directors have access to an induction program to introduce the Group Executives and the detail of IAG's businesses. Induction includes individual meetings with the CEO, Group Executives and senior management.

Workshops are conducted, as required, to further Non-Executive Directors' education on topics which include reinsurance, capital, risk management and investment management. Directors have unfettered access to Group Executives and the external auditor and are encouraged to meet with these Group Executives to further their knowledge and understanding of the organisation. Executive Directors appointed to subsidiary and associated company boards are offered and encouraged to undertake training to help ensure they can continue to effectively and competently perform their roles as Executive Directors.

PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

IAG takes ethical and responsible decision making very seriously. It expects its employees and Directors to do the same, as they are all accountable for ensuring that their behaviours, decisions and choices are:

- in accordance with all laws and regulations of the countries in which IAG operates; and
- consistent with the Group's ethical principles as set out in IAG's Code of Ethics (the Code) and the IAG policies and standards that relate directly to their duties.

The Code has been developed to provide all Group officers, employees and contractors with a framework to make good, informed business decisions and to act on them with integrity. The Code sets out the principles to guide the behaviours of every officer, employee and contractor in IAG. This means that when IAG's stakeholders interact with IAG, they should feel assured that IAG will act in a responsible, ethical, transparent and honest way, wherever IAG operates.

The Code applies to all Non-Executive Directors, Group officers, employees and contractors for all entities where IAG has majority ownership or which are otherwise to be considered IAG subsidiaries.

In some regions the Code is also supported by a Code of Conduct, which provides more specific guidance for operating in the local legal and regulatory environments.

IAG is acutely aware of the important role culture plays in how a business operates, and performs. IAG believes that it has a very effective and caring culture and has taken steps this year to ensure that its assessment is correct. Mindful of wider community discussions about corporate culture, IAG has appointed renowned ethicist Dr Simon Longstaff (Executive Director, Ethics Centre) to lead IAG's Ethics Committee to gain an external perspective.

Find out more about the IAG Code of Ethics, Codes of Conduct for Australia and New Zealand and The Way We Choose To Do Business on IAG's website at www.iag.com.au/about-us/corporate-governance/codes-and-policies.

PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 AUDIT COMMITTEE

The Audit Committee comprises five Non-Executive Directors: Thomas Pockett (Chairman), Philip Twyman, Hugh Fletcher and Jonathan Nicholson. All members of the AC have financial management experience as shown in their biographies in the Directors' Report.

The main role of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities by monitoring:

- the integrity of IAG and subsidiary external and internal financial reporting, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting;
- the provision of high quality financial and non-financial information to Directors and management that reflects a true and fair view

- of the Company performance and can be relied on by them to make informed judgements;
- tax and financial risks; and
- that the independence of the Auditor, Group General Manager Internal Audit, Group Actuary and the Global External Peer Review Actuary is safeguarded.

The Audit Committee will provide prior endorsement to the Board on the appointment, reappointment and rotation of the audit engagement partner, removal and remuneration of the Auditor and will assess total fees paid for all non-auditor services provided by the Auditor.

The Audit Committee is also empowered as the Audit Committee of IAG's insurance subsidiaries, except for Insurance Manufacturers of Australia Pty Limited and those entities which have established their own Audit Committees. In addition, the Audit Committee acts as the Audit Committee for IAG Finance (New Zealand) Limited, a company with securities listed on the ASX.

The Audit Committee met four times during the reporting period and member attendance at each meeting is shown in the Directors' Report.

The Audit Committee Charter, which provides details of the committee's responsibilities, is available on IAG's website at www.iag.com.au.

4.2 ASSURANCES

The Board has received assurance from the CEO and CFO that the annual declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

4.3 EXTERNAL AUDITOR

The external Auditor attends the AGM and is available to answer shareholders' questions concerning the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted and auditor independence.

Annually IAG also engages an external auditor to provide independent assurance over IAG's non-financial reporting. The Independent Assurance Statement can be found here <http://www.iag.com.au/shared-value/our-performance>.

PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE

IAG's Continuous Disclosure Policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding inside information.

The Continuous Disclosure Policy includes a protocol outlining how information is released to the public and provides examples of what could constitute inside information. The IAG Continuous Disclosure Policy is available online at www.iag.com.au/about-us/corporate-governance/codes-and-policies.

IAG is committed to timely, factual and balanced disclosure to help ensure investors are informed of material developments for the Group. Care is taken to help ensure announcements do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of information when making investment decisions.

All announcements are subject to sign-off process at senior levels within IAG before release to the ASX. The CEO or CFO jointly with the Chairman or any other Director must jointly approve announcements of particular significance where time does not permit a full Board to be convened. All IAG announcements to the ASX are available online at www.iag.com.au/news-events/announcements.

Policies have been designed and established to ensure compliance with the ASX Listing Rules' disclosure requirements and to help ensure accountability at a senior Executive level for that compliance. In accordance with its Continuous Disclosure Policy, IAG is committed to ensuring all investors have access to information on IAG's financial performance. IAG posts on its website all investor and media material released to the ASX, including:

- annual and interim reports;
- investor and media releases and presentations of half year and full year results;
- webcasts of CEO and CFO presentations at half year and full year results announcements;
- notices of general meetings and explanatory material;
- the Chairman's and CEO's addresses to the AGM;
- investor and media releases and presentations regarding divestments and acquisitions;
- investor and media presentations given at investor strategy sessions and other one-off events; and
- all other information released to the market.

PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 INFORMATION AND GOVERNANCE

IAG maintains a comprehensive website at www.iag.com.au to provide shareholders with information about IAG, including links to the Corporate Governance policies adopted by the Group. The website also provides detailed biographies of the Board members and the Group Executives, as well as news releases and interim and full year financial results and reports.

IAG's website has a separate Shareholder Centre to provide shareholders with share price history, dividend payments made on IAG ordinary and preference shares by year and links to IAG public offers and proposals. Shareholders are also able to access details of their holdings of IAG securities.

These website is actively promoted to all shareholders on dividend payment statements and in AGM materials.

6.2 INVESTOR RELATIONS PROGRAM

Shareholders and investors can raise any issues or concerns at any time by contacting the Company by email at investor.relations@iag.com.au. Alternatively, shareholders and investors can write to the Chairman or Company Secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000, Australia.

Shareholders are provided with a Question Form with their AGM documentation. Shareholders who are unable to attend the AGM are encouraged to ask questions as they submit their voting intentions either online or when mailing back the voting form. Questions received from shareholders are collated and, during the course of the AGM, the Chairman or CEO responds to the most frequently asked questions in their presentations to the meeting.

6.3 PARTICIPATION AT GENERAL MEETINGS

Shareholders are encouraged to attend AGMs and ask questions of the Chairman and the Board. IAG adopts best practice in the drafting of notices for general meetings and other communications to help ensure that they are honest, accurate, informative and not misleading. All AGM material can be found in the Shareholder Centre of IAG's website at www.iag.com.au.

IAG shareholders and authorised intermediaries such as custodians are offered online proxy and direct voting to facilitate lodgement of their votes on resolutions put to general meetings. The AGM is also webcast live for viewing by shareholders and other interested parties, and an archived file of the meeting is made available in the Shareholder Centre of IAG's website at www.iag.com.au.

6.4 ELECTRONIC COMMUNICATIONS

IAG actively promotes to shareholders the benefits of using electronic communications. As at 31 July 2016, 29.10% of shareholders had registered their email address. Shareholders who use this service are advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available on the website.

IAG also has an email alert system to advise investors, beneficial owners and other interested parties who may not be shareholders when important media releases, financial announcements, presentations and annual reports are released to the market through the ASX.

PRINCIPLE 7. RECOGNISE AND MANAGE RISK

Managing risk is central to the sustainability of IAG's business, its purpose and the delivery of shareholder value. IAG does not seek to avoid all risks but does aim to optimally manage risks. Management of risk is an integral part of delivering IAG's strategy, decision making and long term sustainability. IAG's Risk Management Framework (RMF) uses an enterprise approach to risk and is a core part of its governance structure. The RMF includes internal policies, key management processes and culture.

The Group Chief Risk Officer (CRO) reports to the CEO. The CRO oversees risk activities across IAG and is supported by a risk function. IAG's CRO and risk function provide regular reporting to the Risk Committee on risk matters and key risks. Further details on risk management at IAG are included in the notes to the Financial Statements.

7.1 RISK COMMITTEE

The Risk Committee comprises five Non-Executive Directors: Philip Twyman (Chairman), Elizabeth Bryan, Hugh Fletcher, Thomas Pockett and Jonathan Nicholson. All members of the RC have relevant experience as shown in their biographies in the Directors' Report.

The Risk Committee assists the Board and its subsidiaries and related entities in fulfilling their risk management and compliance responsibilities and is supported in its oversight of risk by a series of Executive and Regional risk and governance forums.

The Risk Committee's RC's purpose is to:

- provide oversight of material risks to which IAG is exposed and oversight of risk management and control systems for adequacy and effectiveness;
- monitor the Group's compliance with the Group Risk Management Strategy (Group RMS), Group Reinsurance Risk Management Strategy (Group REMS) and other governance and risk related Group Policies identified in the Group RMS;
- ensure effective operation of compliance systems, having regard to the requirements of applicable laws, regulations, industry codes, listing authorities' rules and organisational policies and frameworks;
- oversee the Group's risk management and governance frameworks; and
- safeguard the independence of the Group CRO, Chief Actuary and the risk and compliance functions.

The Risk Committee met four times during the reporting period and member attendance at each meeting can be found in the Directors' Report. The Risk Committee Charter, which provides details of the Risk Committee's responsibilities, and operation, is available at www.iag.com.au/about-us/corporate-governance.

7.2 REVIEW RISK MANAGEMENT FRAMEWORK

The Board has responsibility for setting risk strategy. The Risk Committee assists the Board in fulfilling its risk management responsibilities and has oversight of the Group's risk management and governance frameworks and material risks to which the Group is exposed. The Risk Committee monitors the effectiveness of the risk management function, reviews and recommends IAG's Risk Management Strategy and other key risk documents (e.g. the Reinsurance Management Strategy and the Risk Appetite Statement, and selected Group Policies) to the Board for approval and satisfies itself as to the contents of the annual APRA Risk declaration. The Board receives information on risk matters of particular significance and regular updates from the Chairman of the Risk Committee.

The CRO team provides regular reports to the Risk Committee on the operation of IAG's risk management framework, the status of key risks, risk and compliance incidents and risk framework changes. Divisional risk and compliance functions also report regularly to

either the Group CRO or divisional risk committees.

The Risk Committee considers IAG's enterprise risk profile, risk appetite and core risk documents on an annual basis. In addition, business Executives are required to attend and report to the Risk Committee on the effectiveness of the risk management frameworks embedded in their respective business divisions.

At an Executive level, risk management is delegated to the Group CEO who is assisted in discharging risk management responsibilities by the IAG Group Leadership Team Risk Committee (GLT Risk) and the Asset and Liability Committee (ALCO). GLT Risk operates in accordance with its Charter and with delegations from the Group CEO, who is also GLT Risk's Chairman. GLT Risk oversees the development and implementation of IAG's risk management framework and governance arrangements. GLT Risk comprises all GLT members and the Group General Manager Risk and Governance. ALCO focuses on financial risks (such as reinsurance and capital) and provides advice to the CFO. ALCO operates in accordance with its charter and is Chaired by the Group CFO.

IAG operates a "Three Lines of Defence" approach to risk management. The First line is operational management (risk owners), who own their risks and the management of those risks. The Second line (risk advisers) is typically the risk management and compliance functions, and the Third line is the independent audit functions.

Executive Management (all members of the GLT) is responsible for the management of risks faced by their Division. This includes full responsibility for the embedding of the risk management processes and culture, through:

- providing the mandate and commitment to risk management (i.e. set the tone at the top with regards to risk management);
- ensuring their Division complies with the RMS requirements, Board approved policies and all applicable regulatory / legal requirements;
- embedding Divisional Risk Owner responsibilities;
- ensuring there are Divisional / Regional Risk teams that are sufficiently resourced as appropriate to the nature, scale and diversity of the Division and have the necessary standing and support;
- using risk management processes as part of key decision making;
- ensuring the business operates within the Group / Divisional Risk Appetite;
- regularly receiving and considering risk management reports; and
- promoting and reinforcing the Group's proactive risk management culture.

Risk culture and behaviours are the foundation for appropriate risk management, governance and business sustainability. Conducting business in a manner aligned with IAG's Purpose is a core goal. Conduct related matters and risks are managed via IAG's enterprise approach to risk and associated practices.

7.3 INTERNAL AUDIT FUNCTION

The Board has established the Group Internal Audit function as a key component of IAG's governance framework. The Group Internal Audit function's objective is to evaluate the effectiveness of internal controls, governance processes and overall risk management, via its independent and objective review program and to:

- provide assurance to the Board that IAG's financial and operational controls designed to manage the Group's risks and regulatory obligations, and achieve its objectives, are operating in an efficient, effective and ethical manner; and
- assist management in improving IAG's business performance.

The Group General Manager, Internal Audit, reports functionally to the Audit Committee and administratively to the Group CRO, and has direct access to the CEO and the Audit Committee.

7.4 ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK

IAG is a founding member of the United Nations Environment Program Finance Initiative, Principles for Sustainable Insurance (PSI) and is one of the only two Australian insurers among 43 signatories. Launched in June 2012 as part of the United Nations Environment Program Finance Initiative (UNEPFI), the PSI is a set of voluntary global principles to guide insurers to:

- embed in their decision-making relevant environmental, social and governance issues;
- work together with clients and business partners to raise awareness of these issues, manage risk and develop solutions;
- work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social, and governance issues; and
- demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

IAG is an active member of the UNEPFI PSI and has taken a lead position on PSI activities, including through its sponsorship of the three-phase Global Resilience Project, which aims to deepen the understanding of disaster risk reduction activities and investments globally, identify the human and economic cost of disasters, and help governments, businesses and NGOs focus more closely on necessary disaster risk reduction activities in the world's most vulnerable countries. Phase I and II of the Global Resilience Project are detailed below:

- Phase I – the "Building disaster-resilient communities and economies" report – was launched at a major PSI event in London in June 2014. The report identified and assessed the effectiveness of a range of disaster risk reduction measures for cyclones, floods and earthquakes. The research focused on net economic and social benefits, and the cost to implement a particular disaster risk reduction measure relative to other options; and
- Phase II – the Global Risk Map – was introduced at a major PSI event in Switzerland in May 2015, and formally launched at the International Insurance Society's (IIS) Global Insurance Forum in New York in June 2015. The Global Risk Map covers major natural disasters over the past 115 years. The map highlights the social and economic devastation caused by cyclones, floods, earthquakes and related perils, as well as areas/countries of high vulnerability to these natural hazards.

Part of IAG's commitment to implementing the PSI principles is ensuring that IAG has governance systems – structures, values, principles, frameworks and policies – to define its decision-making context and the boundaries for managing operations sustainably.

Responsibility for adhering to these systems sits at every level of the organisation. IAG's Board takes overarching responsibility for monitoring the development, implementation and reporting of IAG's approach to the proactive management of risk that drives sustainable outcomes and how effectively IAG responds to stakeholders.

As well as actively managing sustainability risks internally, IAG believes it also has a responsibility to share its knowledge about risk to make communities safer, stronger and more confident. It does this by promoting better understanding and reduction of risks, at home, at work, on the road and in the natural environment.

An example of this is the IAG led Australian Business Roundtable for Disaster Resilience & Safer Communities. The Roundtable was formed in December 2012 by the Chief Executive Officers of the Australian Red Cross, IAG, Investa Property Group, Munich Re, Optus and Westpac Group. The CEOs created the Roundtable as all believe building resilient communities that can adapt to extreme weather events is of national importance. The Roundtable has released two significant evidence based papers to Government, both of which have contributed to the findings of the Productivity Commission's Inquiry into Natural Disaster Funding Arrangements. The Commission's Final Report was released by Government on 1 May 2015. In recognition of this work the Roundtable was awarded the Certificate of Distinction at the 2015 United Nations Sasakawa Awards for Disaster Risk Reduction, the first private sector organisation to do so in the 30 year history of the awards.

More information about how IAG shares its risk expertise and details of other shared value and sustainability activities, including how IAG defines and addresses the issues it faces, can be found in the 2016 Annual Review.

PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY

8.1 PEOPLE AND REMUNERATION COMMITTEE

The three members of the People and Remuneration Committee (PARC) are Elizabeth Bryan (Chairman), Alison Deans, and Raymond Lim. Yasmin Allen was a member until September 2015 and Brian Schwartz was member until March 2016.

The PARC assists the Board in fulfilling its statutory and fiduciary responsibilities by:

- monitoring the development and implementation of Group's people and culture strategies;
- monitoring the development and implementation of IAG's workplace, health and safety framework and strategies;
- reviewing succession plans for Executives;
- providing assurance to the Board relating to the effectiveness, integrity and compliance with IAG's remuneration policies and practices;
- assessing whether the Group Remuneration Policy is effective and complies with regulatory requirements on remuneration, including those specified in the Corporations Act and APRA's prudential standards;
- monitoring the appropriateness and relevance of the Group Reward Strategy and its approach to deliver the strategic goals of IAG; and
- overseeing Board composition of designated IAG subsidiary and associated companies.

The PARC is also empowered as the remuneration committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate remuneration committee. The PARC met four times during the reporting period and member attendance at each meeting is shown in the Directors' Report.

Find out more about the PARC Charter at www.iag.com.au/about-us/corporate-governance

8.2 GROUP REMUNERATION POLICY

Details of IAG's remuneration policies for its Non-Executive Directors and senior Executives are disclosed in the Remuneration Report. The Remuneration Report describes how the pay for Non-Executive Directors and Executives is structured, and includes: details of the actual remuneration paid; the relationship to IAG's performance; and the process allowing the Board to adjust variable pay downward. The Remuneration Report also outlines IAG's minimum shareholding requirements for Executives and Non-Executive Directors.

8.3 EQUITY BASED REMUNERATION

IAG's remuneration policy prohibits Non-Executive Directors and Executives from entering into, varying or terminating transactions or arrangements which operate to limit the economic risk of their:

- unvested entitlements to IAG securities (such as Executive Performance Rights and Deferred Award Rights); and
- vested IAG securities which form part of their mandatory holding of IAG ordinary shares.

Details of IAG's equity based remuneration policy for the CEO and Group Executives are shown in the Remuneration Report.

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 | <p>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.</p> <p>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.</p> |
| Short term performance was sound | <p>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.</p> <p>Reflective of the business' short term performance, the average Short Term Incentive (STI) payment was 67% of the maximum achievable for the Executive team.</p> |
| IAG focuses Executives on being Closer, Braver, Faster | <p>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.</p> <p>To align Executive behaviours with the IAG Spirit, eligibility for a STI payment is now dependent on demonstrating the IAG Spirit.</p> |
| 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

A handwritten signature in black ink, appearing to read "Elizabeth Bryan". The signature is fluid and cursive, with the first letter of each word being capitalized and prominent.

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 | TERMINATION BENEFITS \$000 (2) | CASH STI \$000 | DEFERRED STI | LTI VESTED \$000 (4) | TOTAL ACTUAL REMUNERATION RECEIVED \$000 |
|--|----------------|--------------------|---|---|-------------------|------------------------|----------------------------|---|
| | | | BENEFITS AND LEAVE ACCRUALS \$000 (1) | | | VESTED \$000 (3) | | |
| 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.

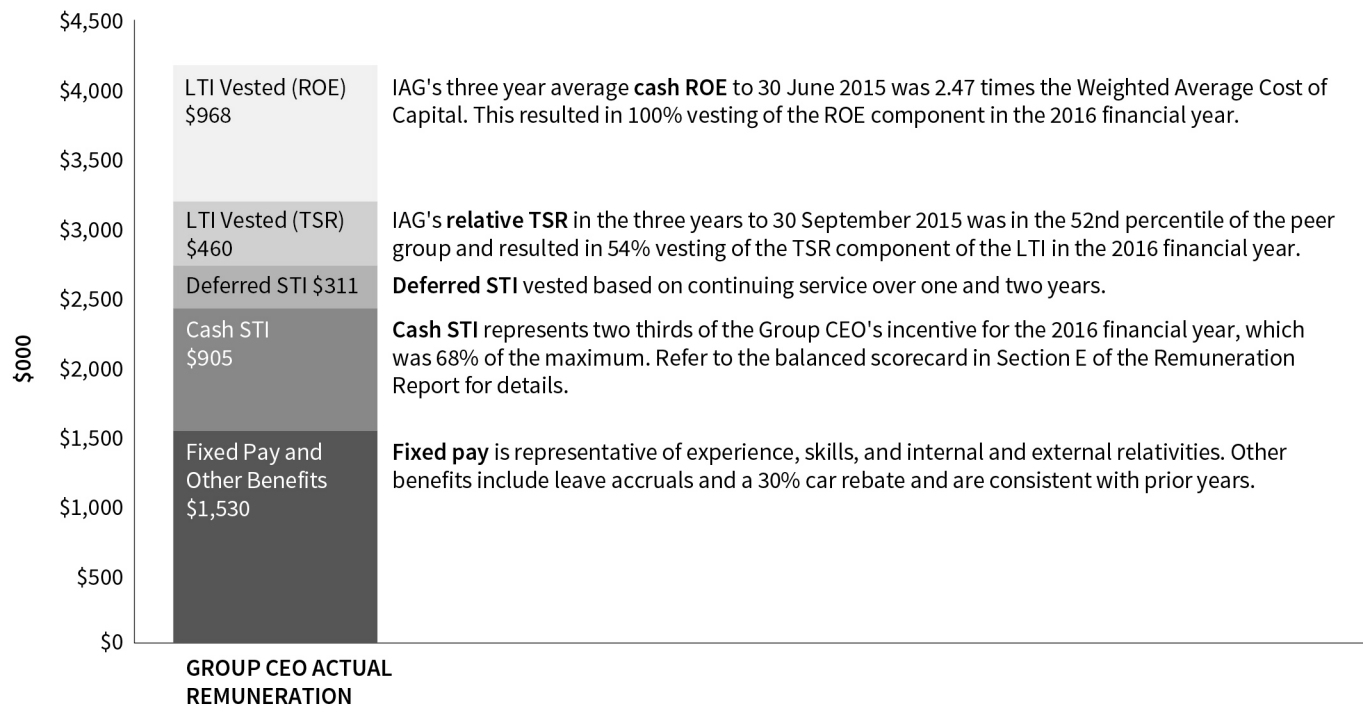
II. Group CEO remuneration explained

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

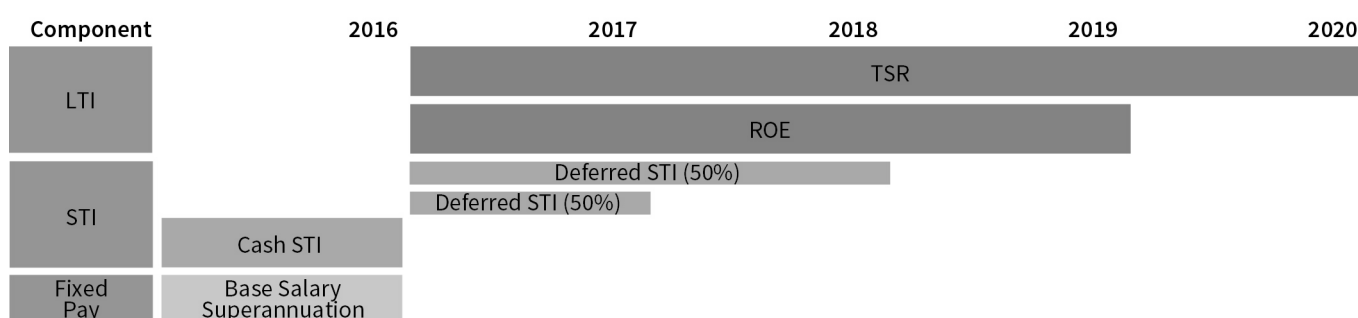
The table below outlines the remuneration components and the strategic objective of each component:

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

■ Fixed remuneration **25.0%**
 ■ STI – cash **25.0%**
 ■ STI – deferred **12.5%**
 ■ LTI **37.5%**



AVERAGE POTENTIAL EXECUTIVE TEAM MEMBER REMUNERATION MIX

■ Fixed remuneration **29.0%**
 ■ STI – cash **23.2%**
 ■ STI – deferred **11.6%**
 ■ LTI **36.2%**



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:

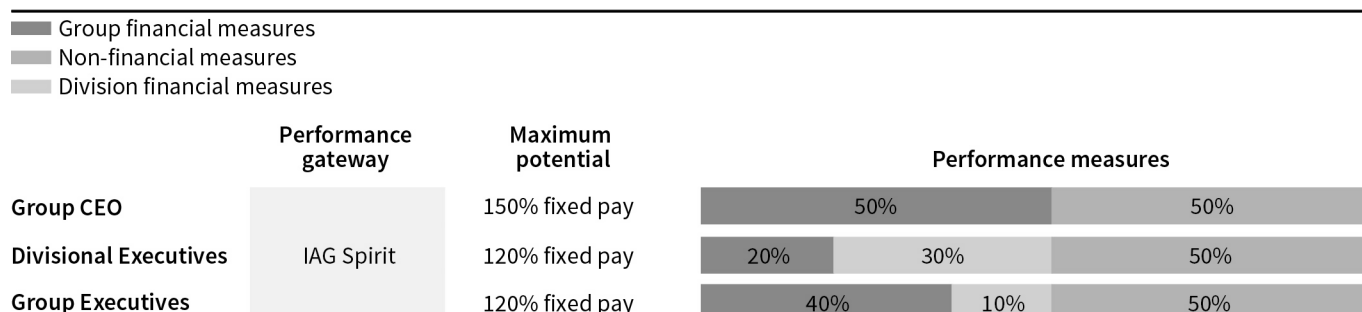


TABLE 3 - STI PLAN

| | |
|-------------------------------------|---|
| 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 | <p>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.</p> <p>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.</p> |
| 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 | TSR - 50% weighting |
| | Cash return on equity is measured relative to the Group's WACC. | 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 | DEFERRED STI OUTCOME |
|------------------|---------------------------------|-------------------------------|--------------------|------------------|------------------|----------------------|
| | (% of fixed pay) ^(a) | (% of maximum) ^(b) | (% of fixed pay) | (2/3 OF OUTCOME) | (1/3 OF OUTCOME) | |
| | | | | (% 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:

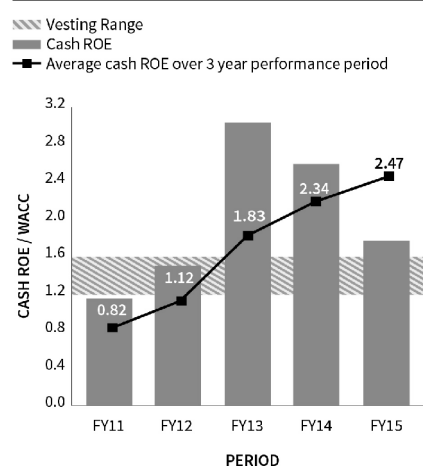
ROE – 100% vesting

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 EMPLOYMENT BENEFITS | OTHER LONG TERM EMPLOYMENT BENEFITS | TERMINATION BENEFITS | SUB-TOTAL | SHARE-BASED PAYMENT | | TOTAL | AT-RISK REMUNERATION PAID |
|------------------------------|--------------------------------|------------|-----------------------------------|--------------------------|-------------------------------------|----------------------|--------------|-----------------------|-------------------------|--------------|---------------------------|
| | Base salary | Cash STI | Leave accruals and other benefits | Superannuation | 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 EMPLOYMENT BENEFITS | OTHER LONG TERM EMPLOYMENT BENEFITS | TERMINATION BENEFITS | SUB-TOTAL | SHARE-BASED PAYMENT | | TOTAL | AT-RISK REMUNERATION PAID | |
|--|--------------------------------|--------------|-----------------------------------|-------------------------------------|-----------------------------|--------------|-----------------------|-------------------------|--------------|---------------------------|-----------|
| | Base salary | Cash STI | Leave accruals and other benefits | Superannuation | 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 | % | |
| | (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⁽⁴⁾

| | | 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

| BOARD/COMMITTEE | YEAR | ROLE | |
|-----------------------------------|-------------|------------------|------------------|
| | | 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 |
| 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 Number | SHARES RECEIVED ON EXERCISE OF DAR Number | SHARES RECEIVED ON EXERCISE OF EPR Number | NET MOVEMENT OF SHARES DUE TO OTHER CHANGES ^(a) Number | TOTAL SHARES HELD AT 30 JUNE Number | SHARES HELD NOMINALLY AT 30 JUNE ^(b) 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