

DIRECTORS' REPORT

The Directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2017 and the Auditor's Report.

The following terminology is used throughout the financial report:

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

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

CHAIRMAN

ELIZABETH B BRYAN AM

BA (Econ), MA (Econ), age 70 - Chairman and Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Elizabeth Bryan was appointed a Director of IAG on 5 December 2014, and became Chairman on 31 March 2016. She is the Chairman of the Nomination Committee, and attends all Board committee meetings in an ex officio capacity. Elizabeth is also the Chairman of Insurance Manufacturers of Australia Pty Limited.

OTHER BUSINESS AND MARKET EXPERIENCE

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

She has over 30 years of experience in the financial services industry, government policy and administration, and on the boards of companies and statutory organisations.

In addition to her role as Chairman of IAG, Elizabeth is also currently Chairman of Virgin Australia Group.

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

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

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

MANAGING DIRECTOR

PETER G HARMER

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

INSURANCE INDUSTRY EXPERIENCE

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

Peter joined IAG in 2010 and has held a number of senior roles. Prior to his current role, Peter was Chief Executive of the IAG Labs division, responsible for driving digital and innovation across IAG and its brands, and creating incubator areas which specifically explore innovative opportunities across the fintech landscape.

Before this, Peter was Chief Executive of the Commercial Insurance division and joined IAG as Chief Executive Officer, CGU Insurance.

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

He has over 36 years experience in the insurance industry, including senior roles in underwriting, reinsurance broking and commercial insurance broking as Managing Director of John C. Lloyd Reinsurance Brokers, Chairman and Chief Executive of Aon Re and Chairman of the London Market Reform Group.

Peter has completed the Harvard Advanced Management Program.

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

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

OTHER DIRECTORS

DUNCAN M BOYLE

BA (Hons), FCII, FAICD, age 65 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Duncan Boyle was appointed a Director of IAG on 23 December 2016. He is a member of IAG's Audit Committee, Risk Committee and Nomination Committee.

Duncan is Chairman of TAL Dai-ichi Life and a former Non-Executive Director of QBE Insurance Group.

Duncan's executive career included senior roles with a variety of financial and corporate institutions, including Royal and Sun Alliance Insurance. He also held various board roles with the Association of British Insurers, Insurance Council of Australia, Global Aviation Underwriting Managers, AAMI and APIA.

OTHER BUSINESS AND MARKET EXPERIENCE

Duncan is a former Non-Executive Director of Stockland Group and Clayton Utz.

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

- Stockland Group (2007-2015); and
- QBE Insurance Group (2006-2014).

CATRIONA A DEANS (ALISON DEANS)

BA, MBA, GAICD, age 49 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

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

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

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

HUGH A FLETCHER

BSc/BCom, MCom (Hons), MBA, age 69 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

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

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

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

- IAG Finance (New Zealand) Limited (a part of the Group), since 2008;
- Vector Limited, since 2007; and
- Rubicon Limited, since 2001.

JONATHAN (JON) B NICHOLSON

BA, age 61 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

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

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

- None.

HELEN M NUGENT AO

BA (Hons), PhD, MBA, HonDBus, age 68 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Helen Nugent was appointed a Director of IAG on 23 December 2016. She is Chairman of IAG's People and Remuneration Committee and a member of the Audit Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Helen is Chairman of Australian Rail Track Corporation, Ausgrid and the National Disability Insurance Agency.

She has over 30 years experience in the financial services sector. This includes being Chairman of Veda Group, Funds SA, Swiss Re (Australia) and Swiss Re (Life and Health) Australia, as well as being a Non-Executive Director of Macquarie Group, Origin Energy Limited, Mercantile Mutual and the State Bank of New South Wales.

Other former senior roles include Director of Strategy at Westpac Banking Corporation, Professor and Director of the MBA Program at the Australian Graduate School of Management and Principal of McKinsey & Company, where she specialised in the financial services and resources sectors.

Helen has given back to the community in education and the arts, having been Chancellor of Bond University, President of Cranbrook School, Chairman of the National Opera Review, Chairman of the Major Performing Arts Inquiry and Deputy Chairman of Opera Australia. She is currently Chairman of the National Portrait Gallery.

Helen is an Officer of the Order of Australia (AO) and has received a Centenary Medal as well as an Honorary Doctorate in Business from the University of Queensland.

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

- Origin Energy Limited (2003-2017);
- Veda Group (2013-2016); and
- Macquarie Group (1999-2014).

THOMAS (TOM) W POCKETT

CA, BCom, age 59 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

Tom is Chairman and Non-Executive Director of Stockland Group, Chairman and Non-Executive Director of Autosports Group Limited and a Director of Sunnyfield Independence Association and of O'Connell Street Associates. He previously spent over eleven years as Chief Financial Officer and over seven years as Finance Director with Woolworths Limited and retired from these roles in February 2014 and July 2014, respectively. Tom has also held senior finance roles at Commonwealth Bank, Lend Lease Corporation and Deloitte.

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

- Autosports Group Limited, since 2016;
- Stockland Group, since 2014; and
- Woolworths Limited (2006-2014).

PHILIP J TWYMAN AM

BSc, MBA, FAICD, age 73 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

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

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

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

OTHER BUSINESS AND MARKET EXPERIENCE

Philip is also a director of Tokio Marine Management (Australasia) Pty Ltd.

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

- None.

DIRECTORS WHO CEASED DURING THE FINANCIAL YEAR

Raymond Lim was a Director from 1 February 2013 to 20 February 2017.

SECRETARY OF INSURANCE AUSTRALIA GROUP LIMITED

CHRISTOPHER (CHRIS) J BERTUCH

BEC, LLB, LLM

Chris Bertuch was appointed Group General Counsel and Company Secretary on 11 May 2011. Prior to joining IAG, he held the position of Group General Counsel and Company Secretary at CSR Limited. Chris joined CSR Limited as a corporate lawyer in 1993 and prior to that was a partner in the law firm Gadens Lawyers in Sydney. He brings to IAG more than 30 years of experience in corporate, commercial and trade practices law and dispute resolution. Chris has completed the Advanced Management Program at Harvard Business School.

MEETINGS OF DIRECTORS

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

DIRECTOR	BOARD OF DIRECTORS				PEOPLE AND REMUNERATION COMMITTEE		AUDIT COMMITTEE		RISK COMMITTEE		BOARD SUB COMMITTEE		NOMINATION COMMITTEE	
	Scheduled		Unscheduled											
Total number of meetings held	7		1		4		4		5		2		2	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Elizabeth Bryan ^(a)	7	7	1	1	2	2	-	-	3	3	2	2	2	2
Peter Harmer	7	7	1	1	-	-	-	-	-	-	2	2	2	2
Duncan Boyle ^(b)	3	3	-	-	-	-	2	2	2	2	-	-	1	1
Alison Deans ^(c)	7	7	1	1	4	4	2	2	-	-	-	-	2	2
Hugh Fletcher ^(d)	7	6	1	1	2	2	2	1	5	4	2	2	2	2
Raymond Lim ^(e)	5	5	1	1	2	2	-	-	-	-	-	-	1	1
Jonathan Nicholson ^(d)	7	7	1	1	2	2	2	2	5	5	-	-	2	2
Helen Nugent ^(f)	3	3	-	-	2	2	2	2	-	-	-	-	1	1
Tom Pockett	7	7	1	1	-	-	4	4	5	5	-	-	2	2
Philip Twyman	7	7	1	1	-	-	4	4	5	5	-	-	2	2

(a) Elizabeth Bryan was Chairman of the People and Remuneration Committee until 21 February 2017 and a member of the Risk Committee until 7 February 2017. She attends People and Remuneration Committee, Audit Committee and Risk Committee meetings in an ex officio capacity.

(b) Duncan Boyle was appointed to the Board on 23 December 2016. He was appointed to the Audit Committee, Risk Committee and Nomination Committee on 7 February 2017.

(c) Alison Deans was appointed to the Audit Committee on 7 February 2017.

(d) Hugh Fletcher and Jonathan Nicholson were appointed to the People and Remuneration Committee on 7 February 2017 and were members of the Audit Committee until 7 February 2017.

(e) Raymond Lim was a member of the Board, People and Remuneration Committee and Nomination Committee until 20 February 2017.

(f) Helen Nugent was appointed to the Board on 23 December 2016. She was appointed to the People and Remuneration Committee, Audit Committee and Nomination Committee on 7 February 2017 and was appointed Chairman of the People and Remuneration Committee effective 21 February 2017.

PRINCIPAL ACTIVITY

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

DIVISION	OVERVIEW	PRODUCTS
Consumer Division (Australia) 52% of Group gross written premium (GWP)	<p>Consumer insurance products are sold in Australia through branches, call centres, the internet and representatives, under the following brands:</p> <ul style="list-style-type: none"> ■ NRMA Insurance in NSW, ACT, Queensland and Tasmania; ■ SGIO in Western Australia; ■ SGIC in South Australia; ■ RACV in Victoria, via a distribution agreement with RACV; ■ Coles Insurance nationally, via a distribution agreement with Coles; and ■ CGU through affinity and financial institution partnerships and broker and agent channels. <p>Consumer Division also includes travel insurance, life insurance and income protection products which are underwritten by third parties.</p>	<p>Short tail insurance</p> <ul style="list-style-type: none"> ■ Motor vehicle ■ Home and contents ■ Lifestyle and leisure, such as boat, veteran and classic car and caravan <p>Long tail insurance</p> <ul style="list-style-type: none"> ■ Compulsory Third Party (motor injury liability)
Business Division (Australia) 25% of Group GWP	<p>Business insurance products are sold in Australia through a network of around 2,000 intermediaries, such as brokers, agents and financial institutions and directly through call centre and online channels. Business Division is a leading provider of business and farm insurance, and also provides workers' compensation services in every state and territory, except South Australia and Queensland.</p> <p>Business Division operates across Australia under the following brands:</p> <ul style="list-style-type: none"> ■ CGU Insurance; ■ Swann Insurance; ■ WFI; ■ NRMA Insurance; ■ RACV; ■ SGIO; and ■ SGIC. 	<p>Short tail insurance</p> <ul style="list-style-type: none"> ■ Business packages ■ Farm and crop ■ Commercial property ■ Construction and engineering ■ Niche, such as consumer credit ■ Commercial motor and fleet motor ■ Marine <p>Long tail insurance</p> <ul style="list-style-type: none"> ■ Workers' compensation ■ Professional indemnity ■ Directors' and officers' ■ Public and products liability
New Zealand 20% of Group GWP	<p>The New Zealand business is the leading general insurance provider in the country in both the direct and broker/agent channels. Insurance products are provided directly to customers primarily under the State and AMI brands, and indirectly through insurance brokers and agents, under the NZI and Lumley Insurance brands. Personal products and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.</p>	<p>Short tail insurance</p> <ul style="list-style-type: none"> ■ Motor vehicle ■ Home and contents ■ Commercial property, motor and fleet motor ■ Construction and engineering ■ Niche, such as pleasure craft, boat, caravan and travel ■ Rural and horticultural ■ Marine <p>Long tail insurance</p> <ul style="list-style-type: none"> ■ Personal liability ■ Commercial liability
Asia 3% of Group GWP	<p>The Group has interests in five general insurance businesses in Asia, comprising the direct and intermediated insurance business underwritten through subsidiaries in Thailand, Vietnam and Indonesia and the share of the operating result from the investment in associates in Malaysia and India. The businesses offer personal and commercial insurance products through local brands.</p>	
Corporate and Other	<p>Corporate and other comprises other activities, including corporate services, capital management activity, shareholders' funds investment activities and inward reinsurance from associates.</p>	

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

IAG produced a headline insurance margin of 14.9% in the current financial year, towards the upper end of the revised guidance of 13.5-15.5% provided on 28 June 2017. Underlying performance was softer than anticipated with an underlying margin of 11.9% (2016-14.0%) falling short of original expectations. The lower than expected underlying margin was primarily due to higher than expected claims inflation in short tail motor in Australia and New Zealand and elevated large loss experience in commercial classes, notably in Australia.

Gross Written Premium (GWP) growth of 3.9% (2016-negative 0.6%) was higher than that expected at the outset of the year, encompassing a rate response to the short tail motor claims issues being experienced and better than expected retention in Australian commercial lines.

Short tail personal lines in Australia and New Zealand continued to generate solid growth, predominantly reflecting higher rates. Overall volumes were relatively flat, with growth in motor offset by modest declines in home. Underlying short tail profitability was strong, but slightly lower than the corresponding prior year, as earned rate effects lagged claims inflation.

Long tail Compulsory Third Party (CTP) profitability improved, particularly in NSW, as lower claims frequency resulted from initial reform measures in late calendar year 2016.

Commercial lines' profitability in Australia was adversely affected by the incidence of large property losses. The modest rate increases implemented from the conclusion of calendar year 2015 have continued to gather pace. In New Zealand, there was a marked improvement in commercial rates and volumes, post the Kaikoura earthquake in November 2016.

Asia delivered a lower result, influenced by increased competitive pressures in the Thai and Malaysian motor markets, and increased claim costs in Thailand, including those from flood events. Regional proportional GWP was flat, with strong ongoing growth in India countering trends in Thailand and Malaysia.

A higher reported margin of 14.9% (2016-14.3%) included prior period reserve releases well in excess of original expectations, at 5.4% (2016-2.5%) of Net Earned Premium (NEP), reflecting the relative absence of inflation. This was partially offset by an increase in net natural peril claim costs of over \$160 million, which overran the allowance by about \$140 million.

Progress on IAG's optimisation program has been in line with expectations, with a range of cost-out initiatives building over the course of the current year. As foreshadowed, a small net negative of \$12 million was borne within the current year insurance profit, as modest initial benefits were more than offset by related implementation costs. The creation of a single Australian division, with effect from July 2017, is the next step in simplifying IAG's operating model as part of this program.

Net profit after tax

Net profit after tax of \$929 million (2016-\$625 million) was nearly 50% higher than the prior year. In addition to the effect of a higher insurance profit, this outcome included:

- a significantly higher contribution from investment income on shareholders' funds, incorporating stronger equity market returns; partially offset by
- a greater than \$30 million deterioration in the contribution from fee based business, which included a provision for costs associated with withdrawal from the NSW workers' compensation scheme; and
- the result in the corresponding prior year included nearly \$140 million (post-tax) of non-cash accelerated amortisation and impairment of capitalised software assets.

Gross written premium

GWP grew by 3.9%. The increase was primarily driven by:

- an ongoing rate response to claim cost pressures in short tail motor;
- further improvement in Australian commercial rates, while maintained retention levels were better than originally anticipated;
- a post-Kaikoura earthquake improvement in commercial rates and volumes in New Zealand;
- lower GWP in Asia, reflecting intensified price competition in motor in Thailand; and
- an overall positive foreign exchange translation effect (approximately 0.5%).

In addition, the current year GWP outcome contained:

- an initial \$73 million contribution from IAG's entry into the South Australian CTP market from 1 July 2016, within Consumer Division; and
- lower GWP of approximately \$130 million owing to the divestment of the Swann Insurance motor dealership business in early August 2016, within Business Division.

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

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

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

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

Additional details of the adjustments are provided on page 7 of the 2016 Annual Report.

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

Insurance margin

IGAG's current year reported insurance profit of \$1,258 million (2016-\$1,178 million) was nearly 7% higher than the prior year. The reported insurance margin of 14.9% (2016-14.3%) included:

- significantly higher than originally expected prior period reserve releases of \$457 million (2016-\$207 million), equivalent to 5.4% of NEP (2016-2.5%) arising from Australian long tail classes;
- net natural peril claim costs of \$822 million (2016-\$659 million), which exceeded allowance by over \$140 million and included significant losses from the Kaikoura earthquake, Northern Sydney hailstorm and Tropical Cyclone Debbie events; and
- a favourable credit spread impact of \$20 million, compared to an adverse effect of \$37 million in the prior year.

Underlying margin

IGAG's underlying margin was 11.9% (2016-14.0%). The lower underlying margin included:

- an adverse impact of approximately 70 basis points (bps) from an \$80 million increase in natural perils allowance to \$680 million;
- increased short tail motor claims inflation in both Australia and New Zealand, where the earned effect of related rate increases has yet to match higher claim costs;
- elevated large loss experience in commercial lines, particularly in Australia in the second half;
- a slight drag from the Satellite business (in Consumer), which delivered strong growth but operates at a lower level of profitability;
- a near \$20 million reduction from Asia; and
- the absorption of a small net cost from the Group's optimisation program, of approximately \$12 million.

The above were partially offset by a greater than \$40 million reduction in non-quota share reinsurance expense in the current year and improvement in NSW CTP profitability as pressure from small claim frequency eased.

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

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

INSURANCE MARGIN	2017		2016	
	\$m	%	\$m	%
Reported insurance margin*	1,258	14.9	1,178	14.3
Net natural peril claim costs less allowance	142	1.7	59	0.7
Reserve releases in excess of 1% of NEP	(372)	(4.4)	(125)	(1.5)
Credit spread movements	(20)	(0.3)	37	0.5
Underlying insurance margin	1,008	11.9	1,149	14.0

* Reported insurance margin is the insurance profit/(loss) as a percentage of NEP as disclosed in the Statement of Comprehensive Income. The prior year represents the management reported insurance margin which is the insurance profit as a percentage of NEP as disclosed in the Investor Report. Based on the statutory results, the equivalent statutory insurance margin for the prior year was 13.0%.

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

Tax expense

IAG reported a tax expense of \$329 million (2016-\$218 million), representing an effective tax rate of 24.7% (2016-23.7%). The main reason for this lower than normal rate is the application of the concessional zero tax rate (previously 10%) to a greater proportion of reinsurance recoveries on the February 2011 Canterbury earthquake event by IAG's captive vehicle in Singapore, following a review by that country's revenue authorities.

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

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

Investment income on shareholders' funds

Net investment income on shareholders' funds was a profit of \$249 million, a substantial increase on the profit of \$97 million in the prior year. This was driven by a stronger equity market performance, with the broader Australian index (S&P ASX200 Accumulation) delivering a return of 14.1% (2016-0.6%) and the MSCI World Total Return Index (AUD Hedged) 16.4% (2016-negative 2.8%).

At 30 June 2017, the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 47% (2016-48%).

DIVISIONAL HIGHLIGHTS

On 19 July 2017, IAG announced the creation of a single Australian division, with immediate effect. The Australia Division simplifies IAG's operating model by bringing together the former Australian Consumer, Australian Business, Operations and Satellite Divisions. It centralises accountability for the customer, product, distribution and operations functions for IAG's Australian brands, which include NRMA Insurance, CGU, WFI, SGIO and SGIC.

The segment information provided in this report references the reportable segments that were in place during the 2017 reporting period.

A. CONSUMER DIVISION

The Consumer Division accounted for 52% of Group GWP. This business produced a strong underlying margin of 13.9% and its GWP increased by 5.5%.

I. Premiums

Consumer Division's collective brands continued to generate a sound top line performance in a dynamic and competitive environment. GWP increased by 5.5% to \$6,119 million in the current year (2016-\$5,801 million), and included growth in both short tail home and motor lines, as well as long tail CTP. Short tail GWP growth of 4.7% was predominantly rate-driven, largely in response to higher than originally expected claims inflation in motor. This was supplemented by modest volume gain in motor, while home volumes contracted marginally, reflecting lower new business.

Within Satellite, Coles Insurance and IAL (via the intermediated channel in partnership with Steadfast) delivered stronger growth than Consumer Division as a whole, albeit off considerably smaller bases than those of the major brands. Tougher conditions were experienced by the SGIO and SGIC brands in Western Australia and South Australia respectively, where GWP was flat.

Long tail CTP GWP increased by over 10%, reflecting IAG's entry into the South Australian market from 1 July 2016 and rate increases in NSW in the early part of the year.

II. Insurance profit

Consumer Division reported an insurance profit of \$941 million (2016-\$805 million). This equates to a higher reported insurance margin of 21.8% (2016-19.8%), and included the net effect of:

- considerably higher prior period reserve releases from long tail classes;
- a similar net natural peril claim cost; and
- a favourable credit spread movement of over \$30 million.

Consumer division's underlying performance was strong, with an underlying margin of 13.9%. This outcome was lower than the corresponding prior year (16.0%) and contained:

- pressure on profitability from higher claim costs, notably in short tail motor, moderated by solid premium rate increases across the year;
- a slight drag on reported and underlying margin from the stronger growth of the lower margin Satellite offering, comprising Coles Insurance, SGIO, SGIC and IAL (via the intermediated channel in partnership with Steadfast); and
- an improvement in NSW CTP profitability, following the regulatory cap on legal fees for low value claims, introduced from 1 November 2016.

B. BUSINESS DIVISION

The Business Division represented 25% of Group GWP. In overall terms, GWP was flat despite a reduction of almost \$130 million as a result of the divestment of the Swann Insurance car dealership business. Like-for-like GWP growth exceeded 4%, with business retention levels holding up well and increased rate momentum evident in most intermediated classes. A lower underlying margin of 6.9% (2016-9.7%) included an increased large loss experience. A slightly lower reported margin of 9.2% (2016-10.0%) included higher reserve releases.

I. Premiums

Business Division recorded relatively flat GWP of \$2,962 million (2016-\$2,979 million). This outcome contained:

- the \$130 million reduction in premium from the divestment of the Swann Insurance car dealership business, as outlined above;
- targeted rate increases in most classes, with increased momentum over the course of the year;
- the shedding of poorly performing business, notably in the areas of workers' compensation and commercial property;
- strong underwriting agency-derived growth;
- steady retention rates, which held up better than expected; and
- lower new business opportunities and volumes.

Business Division has continued to focus on underwriting discipline and increasing rates in specific business segments through targeted portfolio reviews. This process commenced over 18 months ago and has gathered momentum. Whilst rate increases vary by segment, portfolios such as business packages, property and commercial motor have seen up to double digit advances, without adverse impact on volumes. The key June renewal period, which represents approximately 20% of Business Division's annual GWP, saw average rate increases of around 5% across the intermediated business portfolio.

The direct market continued to perform well and represented 24% of the Business Division's GWP (2016-23%). Policy growth in the online digital channel was approximately 8% off a low base. Long tail classes represented around 28% of the division's GWP (2016-27%).

II. Insurance profit

Business Division reported a lower insurance profit of \$204 million, compared to the prior year (\$230 million). This equates to a reported insurance margin of 9.2% (2016-10.0%), which includes the net effect of:

- increased large loss experience;
- a similar net natural peril claim cost;
- lower investment income following the reduction in technical reserves as a result of the asbestos reinsurance arrangement in the prior year; partially offset by
- higher prior period reserve releases; and
- a favourable credit spread movement of \$23 million.

Business Division produced a weaker underlying margin of 6.9% (2016-9.7%). This was driven by an adverse large loss experience against financial year 2016 and prior years. The earn-through of lower GWP in prior periods was also a contributory factor.

III. Fee based business

Net income from fee based operations was a loss of \$28 million, compared to a profit of \$4 million in the prior year. The principal source of fee income is Business Division's role as agent under both the NSW and Victorian workers' compensation schemes, which are underwritten by the respective State governments. In March 2017 CGU announced its intention to withdraw from the NSW scheme by 31 December 2017 after assessment of associated risks and returns. As part of the withdrawal, anticipated redundancy payments and fixed technology recharges of approximately \$13 million have been provided for in the current financial year.

Fee based income in the current year included \$5 million of prior period fee income in respect of the Victorian scheme. Excluding this, the underlying result in the current year was lower by \$17 million compared to the corresponding prior year, which was driven by:

- the loss of the largest employer in the Victorian scheme following an unsuccessful tender submission and a reduction in CGU's service fee under a new five year contract;
- unfavourable changes to the NSW remuneration model in the final year of the current contract period; and
- lower than expected returns from performance and incentive fees in both States.

A secondary source of fee income is Business Division's interest in authorised representative brokers, which it has consolidated into one entity following the integration of Westcourt General Insurance Brokers with National Advisor Services.

C. NEW ZEALAND

New Zealand represented 20% of Group GWP and produced a strong underlying performance, with an underlying margin of 14.8% (2016-16.9%).

I. Premiums

New Zealand reported GWP of \$2,339 million (2016-\$2,182 million), representing growth of 7.2%. This included a favourable foreign exchange translation effect, with local currency GWP increasing by 4.3% to NZ\$2,475 million. This outcome embraces:

- strong GWP growth in the Consumer Division, led by the private motor vehicle portfolio from a combination of higher volumes and rates; and
- improving GWP growth in the Business Division where positive signs of rate and volume growth emerged in commercial lines in the second half.

II. Insurance profit

The New Zealand business produced an insurance profit of \$125 million (2016-\$135 million), translating to a reported insurance margin of 7.6% (2016-8.6%). The slightly lower outcome reflects the net effect of:

- substantially higher net natural peril claim costs, notably from the Kaikoura earthquake;
- higher than expected working claim costs, predominantly in the personal lines and commercial motor books as a result of higher average claim costs and frequency;
- challenging market conditions in the Business Division where the focus remains on the maintenance of pricing and underwriting discipline;

- a continued focus on disciplined expense management; and
- the absence of the NZ\$150 million increase to risk margin for the February 2011 earthquake event, which was recognised in the prior year.

New Zealand generated a strong underlying margin of 14.8% (2016-16.9%). The current year margin was impacted by a deterioration in working and large claim costs, as well as the cumulative effect of competitive pricing pressure in commercial lines. Steps taken to address these trends include rate and excess increases, supply chain initiatives and internal claim process changes.

III. Canterbury Rebuild

The settlement of claims associated with the financial year 2011 Canterbury earthquake events continues to make sound progress. At 30 June 2017:

- nearly NZ\$6.4 billion of claim settlements had been completed;
- over 97% of all claims by number had been fully settled;
- over 98% of commercial claims had been fully settled; and
- over 97% of residential claims had been settled, with the balance either in construction or negotiation for cash settlement.

During the current year IAG continued to receive new claims from the Earthquake Commission (EQC) as they tipped over the EQC cap of NZ\$100,000 (plus GST), but at a diminishing rate. IAG's reserving position at the end of the current year allows for some further claims exceeding the EQC's cap.

In financial year 2016, IAG acquired NZ\$600 million of adverse development cover in respect of the February 2011 earthquake, which effectively increased IAG's cover for this event to NZ\$5 billion. IAG's reserved position remains below the attachment point of this cover.

D. ASIA

Asia reported a decline in consolidated GWP of over 5%, as intensified price competition in Thailand was exaggerated by an adverse foreign exchange translation effect. Asia's overall earnings contribution decreased to \$10 million (2016-\$26 million), as both Thailand and Malaysia incurred the effect of increased competitive pressures and, in the case of Thailand, flood-related claim costs. The combined contribution from the developing markets of India, Vietnam and Indonesia improved, driven by the move into profit from India as better claim and expense outcomes were supplemented by higher investment income.

I. Divisional result

The division contributed a total profit of \$10 million in the current year, including shares of associates and allocated costs, compared to a \$26 million profit in the corresponding prior year. The lower result reflects the combination of:

- the move to a small loss in Thailand, driven by a higher claims ratio and increased competitive pressures in motor;
- a lower margin from Malaysia in the face of soft new car sales and increased competition in motor ahead of detariffication;
- an increased loss from Indonesia, as it explores the development of a digital model; offset by
- a move into profit by India on the back of better risk selection, coupled with improved expense management;
- a favourable net movement in mark-to-market valuations of investments in Malaysia and India; and
- lower regional support and development costs.

II. Controlled entities

GWP from the Group's controlled entities was \$366 million, which was a decrease of over 5% on the corresponding prior financial year (2016-\$386 million), within this:

- the Thai business (Safety Insurance) reported a decrease in GWP of 3.9% to \$348 million from \$362 million in the prior year, compared to a local currency GWP decline of 1.8% in the current year. This outcome was influenced by weaker than expected growth in new vehicle sales, intensified price competition in the motor segment and significantly lower commercial volumes following a planned reduction in exposure to selected segments;
- AAA Assurance in Vietnam recorded GWP equivalent to \$15 million (2016-\$17 million); and
- Parolamas in Indonesia recorded GWP equivalent to \$3 million (2016-\$7 million).

The controlled entities reported an insurance loss of \$7 million for the current year (2016-\$21 million profit) excluding allocated costs. Within this:

- the Thai business reported an insurance loss of \$2 million, compared to a profit of \$23 million in the corresponding prior year. The significantly weaker outcome was driven by a deterioration in the loss ratio, which was characterised by a higher number of large losses in the engineering and fire classes, significantly lower prior period reserve releases; a regulatory-led increase in compulsory motor claim limits, with no commensurate premium increase; and increased natural peril-related net claim costs of \$6 million, associated with flood incidents and a prolonged wet season;
- AAA Assurance contributed an insurance loss of \$1 million (2016-\$1 million loss). The result included an increase in the loss ratio, which was in line with expectations following the expiration of the earnings contribution from the run-off loan protection portfolio; and
- Parolamas in Indonesia contributed an insurance loss of \$4 million (2016-\$1 million loss).

III. Share of net profit/(loss) of associates

The Group's share of associates was a profit of \$42 million (2016-\$36 million), excluding allocated costs and before amortisation. This result includes AmGeneral Holdings Berhad (AmGeneral) in Malaysia and SBI General Insurance Company Limited (SBI General) in India. AmGeneral accounts for the majority of the Group's share of net profit from associates.

- IAG's share of AmGeneral's profit for the current year decreased to \$28 million (2016-\$40 million). The decrease was primarily due to reduced net earned premium on the back of a reduction in average premiums for motor insurance; an increased loss ratio of 64.6% (2016-60.7%), largely driven by higher repair costs from motor franchise partnerships, changes to motor business mix and the adverse impact of the ringgit's depreciation on replacement car parts; increased expenses relating to marketing and sales campaigns; and higher administration expenses, particularly those associated with motor detariffication and GST implementation.

- IAG's share of SBI General's profit for the current year was \$14 million compared to a \$4 million loss in 2016. This move into profit comprised an improved loss ratio arising from motor portfolio remediation; a favourable monsoon season in the current year, reducing seasonal losses; an improved expense ratio resulting from tightened cost control; and higher investment income bolstered by business growth and favourable mark-to-market movements in technical reserves income.

E. CORPORATE AND OTHER

A pre-tax profit of \$83 million was reported, which compares to a loss of \$282 million in the corresponding prior year. The movement is mainly comprised of increased net investment income on shareholders' funds of \$152 million in the current year and the non-recurrence of the \$198 million non-cash accelerated amortisation and impairment charge on capitalised software assets incurred in the prior year.

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

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2017 were \$29,597 million compared to \$30,030 million as at 30 June 2016.

Movements within the overall decrease of \$433 million include:

- a decrease in investments and cash of \$649 million from the funds outflow associated with payment of the 2016 final dividend and 2017 interim dividend, the off-market ordinary share buy-back of 64 million shares, redemption of GBP and NZD subordinated debt and buy-back of convertible preference shares, partially offset by the issuance of capital notes and sound operating earnings for the year;
- a decrease in trade and other receivables of \$168 million, predominantly driven by a \$416 million decrease in reinsurance recoveries on paid claims as recoveries on claims associated with the Canterbury earthquakes were settled, partially offset by an increase of \$182 million in investment related receivables, relating to the outstanding settlement of fixed interest holdings at year end; and
- an increase in reinsurance and other recoveries on outstanding claims of \$569 million, predominantly due to recoveries relating to the Kaikoura earthquake and Tropical Cyclone Debbie, partially offset by the continued settlement of the 2011 Canterbury earthquake and other prior period natural peril events.

The total liabilities of the Group as at 30 June 2017 were \$22,805 million compared to \$23,245 million at 30 June 2016. The decrease in liabilities of \$440 million is mainly attributable to the net effect of:

- a decrease in the outstanding claims liability of \$370 million primarily due to prior year reserve releases from Australian long tail classes, higher discount rates impacting claim reserves and settlements on prior year events, partially offset by the Kaikoura earthquake and Tropical Cyclone Debbie claim reserves;
- a decrease in interest bearing liabilities of \$338 million following the redemption of NZD and GBP subordinated debt and buy-back of convertible preference shares, partially offset by issuance of capital notes;
- an increase in unearned premium liability of \$111 million consistent with growth in GWP; and
- an increase in trade and other payables of \$88 million driven by an increase in payables relating to unsettled investment trades at year end, offset by lower reinsurance premiums payable.

IAG shareholders' equity (excluding non-controlling interests) decreased from \$6,563 million at 30 June 2016 to \$6,562 million at 30 June 2017, mainly attributable to:

- payment of the 2016 final and 2017 interim dividends and the dividend component of the off-market share buy-back, totalling \$746 million;
- reduction in share capital following the off-market share buy-back totalling \$193 million; and
- a sound earnings performance in the current year resulting in a net profit attributable to shareholders of \$929 million.

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the year ended 30 June 2017 were \$636 million compared to net cash outflows of \$1,946 million for the prior year. The movement is mainly attributable to the net effect of:

- a \$483 million increase in premiums received consistent with growth in GWP;
- an increase in reinsurance and other recoveries received of \$959 million predominantly due to higher recoveries under the Berkshire Hathaway (BH) quota share and continued collection of recoveries pertaining to the 2010 and 2011 Canterbury earthquakes;
- a \$452 million decrease in claims costs paid, mainly attributable to the period on period reduction in payments made in respect of natural peril events; and
- a \$700 million decrease in outwards reinsurance premium expense paid, primarily driven by the purchase of the run-off portfolio protection placement in the prior financial year and lower catastrophe reinsurance premiums, stemming from the favourable renewals.

C. INVESTMENTS

The Group's investments totalled \$12.1 billion as at 30 June 2017, excluding investments held in joint ventures and associates, with over 67% represented by the technical reserves portfolio. The decrease in total investments since 30 June 2016 (\$12.9 billion) reflects the combined effect of:

- further reduction in technical reserves, mirroring the progressive effect of the 20% BH quota share in lowering related insurance liabilities and the significant reserve releases recognised in the current year; and
- the net reduction in shareholders' funds due to dividend payments (\$623 million) and completion of the off-market share buyback (\$316 million) in the first half of the current financial year.

As at 30 June 2017, the Group's overall investment allocation remains conservatively positioned and the credit quality of the investment book remains strong, with 73% (2016-77%) of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Technical reserves as at 30 June 2017 accounted for \$8.1 billion (2016-\$8.7 billion) of the Group's investments, and were invested in fixed interest and cash.

The Group's allocation to growth assets was 47% of the \$4 billion of shareholders' funds at 30 June 2017 (2016-48%). Included within the Group's allocation to growth assets are Australian and international equities and alternative investments.

D. INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at \$1,624 million at 30 June 2017, compared to \$1,962 million at 30 June 2016. The net decrease of \$338 million is largely explained by:

- the buy-back of \$377 million convertible preference shares;
- the redemption of NZ\$187 million subordinated bonds (\$179 million as of the redemption date);
- the redemption of £100 million subordinated term notes (\$171 million as of the redemption date); partially offset by
- the issue of \$404 million capital notes, qualifying as Additional Tier 1 Capital for regulatory purposes.

E. CAPITAL MIX

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

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

At 30 June 2017, the Group's capital mix was within the targeted range, with debt and hybrids representing 31.9% (2016-36.8%) of total tangible capitalisation.

F. CAPITAL MANAGEMENT

The Group remains strongly capitalised under APRA's Prudential Standards, with regulatory capital of \$4,526 million at 30 June 2017 (2016-\$4,619 million). The Group has set the following related targeted benchmarks:

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

At 30 June 2017, the Group had a PCA multiple of 1.70 (2016-1.72) and a CET1 multiple of 1.09 (2016-1.06).

Further capital management details are set out in Note 3.1 Risk and capital management within the Financial Statements.

STRATEGY AND RISK MANAGEMENT

A. STRATEGY

- At IAG, our purpose is to make your world a safer place: IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves across Australia, New Zealand or Asia, IAG exists to 'make your world a safer place'. IAG believes its purpose will enable it to become a more sustainable business over the long term, and deliver stronger and more consistent returns for its shareholders.
- IAG's opportunity is to embrace innovation: The way we live our lives is changing at a rapid pace driven by new technologies and shifting demographic trends. This means our customers are faced with new challenges and opportunities every day. IAG is determined to lead, helping our customers navigate through this journey and using innovation to make their lives safer and better.
- Our promise is to deliver world class customer experiences: 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 that we can reinvest in our leadership position.

Financial targets

IAG is focused on delivering through-the-cycle targets of:

- cash return on equity (ROE) 1.5x weighted average cost of capital (WACC);
- a dividend payout of 60-80% of cash earnings;
- top quartile total shareholder return (TSR); and
- approximately 10% compound earnings per share (EPS) growth.

Strategic themes

IAG is focused on optimising its core business and building the necessary platforms for future growth. IAG has identified two key strategic themes to deliver this strategy:

I. Leading:

- IAG is determined to lead the change that its customers need and demand. This has the company's customers at its core and IAG will embrace innovation and new technology to make each individual interaction a world class experience. This will be driven by:
 - deepening customer intimacy through digitally-enabled customer experiences, providing needs-based customer propositions and creating ecosystems of relevant adjacent services alongside insurance to help make customers' lives safer and fulfil IAG's purpose.
 - partnering selectively to complement and strengthen our capabilities, incorporating third party offerings in our ecosystems and investing in new ventures and incubation.

II. Fuelling:

- IAG will fuel the business so that it can deliver on these opportunities. This involves tackling necessary changes to the way IAG operates – simplifying processes and systems, and optimising resources, to be more efficient. This will be driven by:
 - optimising our core through simplification and scalability and becoming an agile organisation so that we can deliver inspiring customer experiences with less cost and complexity.

- modularising our operating and capital platforms so that the business can derive maximum value from each component of the value chain, including offering elements on a fee-for-service basis where they strengthen our competitive advantage and partnering for capability in areas that are not a competitive advantage.

B. BUSINESS RISK AND RISK MANAGEMENT

Managing risk is central to the sustainability of IAG's business, its purpose and delivery of value to shareholders. IAG uses an enterprise approach to risk and its risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture. The Risk Management Strategy 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.

Roles and responsibilities of the Board and its standing committees, the Audit Committee, Risk Committee, People and Remuneration Committee and Nomination Committee, are set out in the Corporate Governance section of the IAG website.

The Group is exposed to multiple risks relating to the conduct of its general insurance business. The risks noted below are not meant to represent an exhaustive list, but outline those risks faced by the Group that have been identified in IAG's Risk Management Strategy:

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

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

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

C. ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK

As a general insurer that operates in Australia, New Zealand and throughout Asia, IAG is exposed to economic, environmental and social sustainability risks and opportunities. The IAG Board has overarching responsibility for these areas, which are managed under shared value and sustainability. Performance and risk management is formally reported to the Board annually, with ad-hoc updates as required.

The Consumer Advisory Board and Ethics Committee provide external stakeholder input into the understanding of economic, environmental and social sustainability risk. The Shared Value Advisory Council is an internal governance body that acts as a forum to identify environmental and social risks, determine the materiality of risks and make decisions on how the Company responds through our approach to shared value, sustainability and broader community activity. Established in 2014, the Shared Value Advisory Council fulfils the role of a sustainability committee for IAG. It meets at least quarterly, is chaired by the Group Executive Office of the CEO, and is comprised of Senior Leaders from across the business, including the Group Executive for People, Performance and Reputation and the Chief Customer Officer.

Annually IAG undertakes a materiality assessment to identify and prioritise economic, environmental and social sustainability risks and opportunities. The results of the assessment help guide our shared value and sustainability approach and ensure our reporting addresses risks and opportunities that matter most to our stakeholders and our business. The Shared Value Advisory Council plays an active role in the finalisation of the material issues, which are signed off by the Group Executive, People, Performance and Reputation.

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

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

Detail of IAG's material issues, how IAG manages related risks and opportunities and details of other shared value and sustainability activities can be found in the 2017 Annual Review & Sustainability Report, which is available at www.iag.com.au/shared-value/our-performance. IAG's management of Economic, Environmental and Social Sustainability Risk is outlined in detail in Principle 7.4 of the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance.

CORPORATE GOVERNANCE

IAG is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and to create long term value for its shareholders.

IAG's Corporate Governance Statement has been approved by the Board. Throughout the financial year ended 30 June 2017, IAG has complied with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations (3rd edition) and is compliant as at 23 August 2017. Further details on IAG's corporate governance practices and the Corporate Governance Statement are available at www.iag.com.au/about-us/corporate-governance.

OUTLOOK

IAG expects to report an improved underlying operating performance in financial year 2018. GWP growth is expected to be in the low single digit range. The Group's reported margin guidance for the year ended 30 June 2018 is a range of 12.5-14.5%. Underlying assumptions behind the reported margin guidance are:

- net losses from natural perils in line with an allowance of \$680 million (2017-\$680 million);
- prior period reserve releases of at least 2% of NEP;
- no material movement in foreign exchange rates or investment markets; and
- a relatively neutral impact from optimisation program initiatives, as benefits are matched by related costs.

DIVIDENDS

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

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

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

	2017	2016
	\$m	\$m
CASH EARNINGS		
Net profit after tax	929	625
Acquired intangible amortisation and impairment (post-tax)	59	57
	988	682
Non-recurring items:		
Corporate expenses	8	221
Tax effect on corporate expenses	(6)	(36)
Cash earnings*	<u>990</u>	<u>867</u>
Interim dividend	307	316
Final dividend	474	316
Dividend payable	<u>781</u>	<u>632</u>
Cash payout ratio*	78.9%	72.9%

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

IAG's full year dividend payout policy is to pay dividends equivalent to approximately 60-80% (30 June 2016-60-80%) of reported full year cash earnings.

The Board has determined to pay a fully franked final dividend of 20.0 cents per ordinary share (cps) (2016-13.0 cps), bringing the full year dividend to 33.0 cps (2016-26.0 cps). The final dividend is payable on 9 October 2017 to shareholders registered as at 5pm on 7 September 2017. The Company's Dividend Reinvestment Plan (DRP) will operate for the final dividend by acquiring shares on market with no discount applied. The DRP Issue Price will be based on a volume weighted average share price as defined in the DRP terms. The last date for receipt of an election notice for participation in the Company's DRP is 8 September 2017. Information about IAG's DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the following changes became effective:

- On 10 October 2016, IAG completed its ordinary share off-market buy-back, with IAG acquiring 64 million shares (representing 2.6% of IAG's issued share capital) for a consideration of \$316 million (including transaction costs). The buy-back price per share was \$4.91, which comprised a capital component of \$2.99 and a fully franked dividend of \$1.92.
- On 15 December 2016, IAG redeemed NZ\$187 million of subordinated bonds (\$179 million as of the redemption date).
- On 21 December 2016, IAG redeemed £100 million of subordinated term notes (\$171 million as of the redemption date).
- On 22 December 2016, IAG bought back \$224 million of convertible preference shares (CPS) and the proceeds received by holders were reinvested in capital notes (refer below).
- On 22 December 2016, IAG issued \$404 million of capital notes including the above mentioned reinvestment. The notes qualify as Additional Tier 1 Capital under APRA's Prudential Framework for General Insurance.
- On 1 May 2017, IAG bought back the remaining CPS for a consideration of \$156 million. The buy-back price per CPS was \$102.08 which comprised the issue price of \$100.00 and an additional amount determined by the Directors of \$2.08 which was equivalent to the dividend that was scheduled to be paid on 1 May 2017 and was fully franked.

EVENTS SUBSEQUENT TO REPORTING DATE

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

- Effective 19 July 2017, IAG announced the creation of a single Australian division to be led by Mark Milliner as CEO Australia. The Australian division simplifies IAG's operating model by bringing together the former Australian Consumer, Australian Business, Operations and Satellite divisions. There has been no change to the reportable segments in the current financial year as financial information was prepared and reviewed by the chief operating decision maker based on the pre-existing segment structure for Australia.
- On 1 August 2017, IAG consolidated its nine Australian Insurance licences into two licences following Federal Court approval received in July 2017. The consolidation transferred the insurance assets and liabilities of seven entities into a related entity, Insurance Australia Limited, with no impact to the Group's consolidated financial performance or position. Following the transfer, IAG retains two authorised insurers in Australia being Insurance Australia Limited and Insurance Manufacturers of Australia Pty Limited. The transfer is part of IAG's focus on becoming a simpler, more efficient and agile business.
- On 23 August 2017, the Board determined to pay a final dividend of 20 cents per share, 100% franked. The dividend will be paid on 9 October 2017. The dividend reinvestment plan will operate by acquiring shares on market for participants with no discount applied.

NON-AUDIT SERVICES

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

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

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

The level of fees for total non-audit services amounted to approximately \$1,359 thousand (refer to Note 8.3 Remuneration of auditors for further details of costs incurred on individual non-audit assignments).

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

The lead auditor's independence declaration is set out on page 39 and forms part of the Directors' Report for the year ended 30 June 2017.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

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

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

REMUNERATION REPORT

EXECUTIVE SUMMARY

IAG's remuneration approach is designed to align the interests of shareholders and Executives as well as to encourage sustainable, superior performance.

The alignment between the short term performance of the Group and the reward of Executives has been strengthened.

In August 2016, the People and Remuneration Committee (PARC) and the Board reviewed IAG's short term performance goals for the Managing Director and Chief Executive Officer (Group CEO) and the Executive Team, and the way performance against these goals translates into Short Term Incentive (STI) outcomes. Previously, the STI of the Executive Team was determined with reference to individual balanced scorecards that were tied to the performance of the division each Executive managed. For the year ended 30 June 2017, the STI of the Group CEO and each member of the Executive Team has been measured against the Group Balanced Scorecard, which drives collective accountability for the performance of the Group under the concept of "One IAG". STI awards for the year ended 30 June 2017 have been calculated with reference to the Group Balanced Scorecard outcome, with the Board able to exercise discretion up or down from this outcome to reflect the Executive's contribution to the Group's performance. Other significant changes to the Group Balanced Scorecard include:

- highlighting the importance of the Group's financial performance in determining STI outcomes by increasing the weighting of financial measures in the Group Balanced Scorecard to comprise 60% of all goals;
- introducing a Net Promoter Score as the customer measure for the Group Balanced Scorecard. This reflects IAG's strategic focus on delivering world class customer experiences; and
- simplifying the Group Balanced Scorecard by reducing the number of measures.

PARC considers that IAG's executive reward framework supports the creation of sustainable financial performance.

To focus Executives on achieving sustainable, long term performance, Executives are provided with Long Term Incentive (LTI) awards in the form of performance rights. The LTI requires Executives to meet challenging long term financial performance targets based on cash Return on Equity and relative Total Shareholder Return. Vesting of the LTI only occurs if the Group exceeds its long term performance targets and delivers superior financial performance over a three year period for the cash Return on Equity hurdle, and four years in the case of the relative Total Shareholder Return hurdle.

As foreshadowed in the 2016 Remuneration Report, a review of the cash Return on Equity hurdle was completed during the 2017 financial year. The outcome of this review was that cash Return on Equity was confirmed for this year as an important strategic measure.

The remuneration outcomes presented in the 2017 Remuneration Report demonstrate a strong link between value created for IAG's shareholders and reward for its Executives.

To attract and retain Executive talent, IAG provides competitive fixed pay. IAG has taken a conservative approach to fixed pay increases, with increases awarded where Executives are below the market for equivalent roles, or where there has been an increase in responsibilities. For the year ended 30 June 2017 fixed pay was held constant for the majority of IAG's Executives, with only four out of the thirteen Executives receiving increases due to changes in role or to reflect market pay levels. For the remuneration review conducted in August 2017, two out of twelve Executives will receive a fixed pay increase.

In the 2017 financial year, IAG's business performance was sound. After allowing for divestments and new market entry, the business maintained a stable market position and generated a sound underlying performance despite industry-wide claim cost pressures. A strong capital position was maintained, while shareholder returns were improved through active capital management. Reflecting this performance, the Group Balanced Scorecard outcome was 67% of the maximum achievable. The Board determined to cap STI payments to Executives at the Group Balanced Scorecard outcome and in some cases exercised downward discretion. The average STI payment for the Group CEO and the Executive Team was 64% of the maximum achievable.

Based on multiple years of strong returns, the cash Return on Equity hurdle for the three year period up to 30 June 2016 vested in full. The Board actively considers the performance tests of the LTI to ensure that the outcome appropriately rewards management for the value created for shareholders and has due regard for risk and compliance. The Board determined that software impairments announced to the market on 19 August 2016 would be included in the calculation when determining the cash Return on Equity vesting outcome.

On 30 September 2016, the relative Total Shareholder Return hurdle of the LTI grant awarded in the year ended 30 June 2013 was tested for the second time. Following this retest, IAG's Total Shareholder Return was ranked at the 53rd percentile of its peer group, resulting in an overall vesting outcome of 56%. This result translated to an additional 2% vesting above the 54% that had already vested following the original test on 30 September 2015. This was the last LTI grant issued with a retesting provision, with the final retest for this grant to be performed on 30 September 2017.

PARC maintains a strong governance focus to ensure remuneration outcomes support the long term financial soundness of the Group.

The Board conducted a review of IAG's remuneration policy to ensure it reflects sound governance practices that reinforce the financial soundness of IAG and encourages behaviour that supports its risk management framework.

In addition, a more comprehensive review of IAG's remuneration structure is underway.

IAG considers it is important to align the interests of Non-Executive Directors and Executives with those of shareholders. To support this alignment, Non-Executive Directors and Executives are required to hold a significant number of IAG shares with a period allowed to acquire those shares. Non-Executive Directors who had served at least three years and Executives who had served at least four years as at 30 June 2017 were tested at this date and all met this requirement.

As part of the Board's role in providing sound governance for IAG's remuneration programs, the Board conducted an assessment to determine if any reduction of unvested or unexercised equity grants was required. The Board is satisfied that no adjustment was necessary.

For employees whose primary role is risk and financial control, including the Chief Risk Officer and the Chief Financial Officer, the Board maintains oversight of their remuneration to ensure the independence of their functions and its alignment with IAG's risk management framework.

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A. KEY MANAGEMENT PERSONNEL COVERED IN THIS REPORT

This report sets out the remuneration details for IAG's key management personnel (KMP). For the year ended 30 June 2017, KMP included the Executives and Non-Executive Directors listed below. Although the Non-Executive Directors are listed below, they do not have management responsibility. Their remuneration is, therefore, dealt with separately.

NAME	POSITION	TERM AS KMP ^(a)
EXECUTIVES		
Peter Harmer	Managing Director and Chief Executive Officer	Full year
Julie Batch	Chief Customer Officer	Full year
Chris Bertuch	Group General Counsel and Company Secretary	Full year
Ben Bessell ^(b)	Chief Executive, Australian Business Division	Full year
Duncan Brain	Chief Executive, Asia	Full year
David Harrington	Group Executive, Office of the CEO	Full year
Nicholas Hawkins	Chief Financial Officer	Full year
Jacki Johnson	Group Executive, People, Performance and Reputation	Full year
Anthony Justice ^(b)	Chief Executive, Australian Consumer Division	Full year
Mark Milliner ^(b)	Chief Operating Officer	Full year
Craig Olsen	Chief Executive, New Zealand	Full year
Clayton Whipp	Chief Risk Officer	Full year
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL		
Claire Rawlins	Group Executive, Digital and Technology	Ceased 7 December 2016
NON-EXECUTIVE DIRECTORS		
Elizabeth Bryan	Chairman, Independent Non-Executive Director	Full year
Duncan Boyle	Independent Non-Executive Director	From 23 December 2016
Alison Deans	Independent Non-Executive Director	Full year
Hugh Fletcher	Independent Non-Executive Director	Full year
Jonathan Nicholson	Independent Non-Executive Director	Full year
Helen Nugent	Independent Non-Executive Director	From 23 December 2016
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		
Raymond Lim	Independent Non-Executive Director	Ceased 20 February 2017

(a) If an individual did not serve as a KMP for the full financial year, all remuneration is disclosed from the date the individual was appointed as a KMP to the date they ceased as a KMP.

(b) Following the implementation of the new IAG Australian Operating Model, effective 19 July 2017, Mark Milliner commenced in the role of Chief Executive, Australia and Ben Bessell assumed the role of Executive General Manager, Business Distribution, while Anthony Justice will cease employment with IAG on 18 November 2017.

Key terms that are used throughout the report are defined in detail in Appendix 5. Key terms and definitions.

B. EXECUTIVE REMUNERATION STRUCTURE

I. Remuneration guiding principles

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

- align remuneration with the interests of IAG's shareholders;
- retain market competitiveness to attract and retain high quality people; and
- encourage constructive, collaborative behaviours as well as prudent risk-taking that support long term financial soundness.

II. Summary of remuneration components

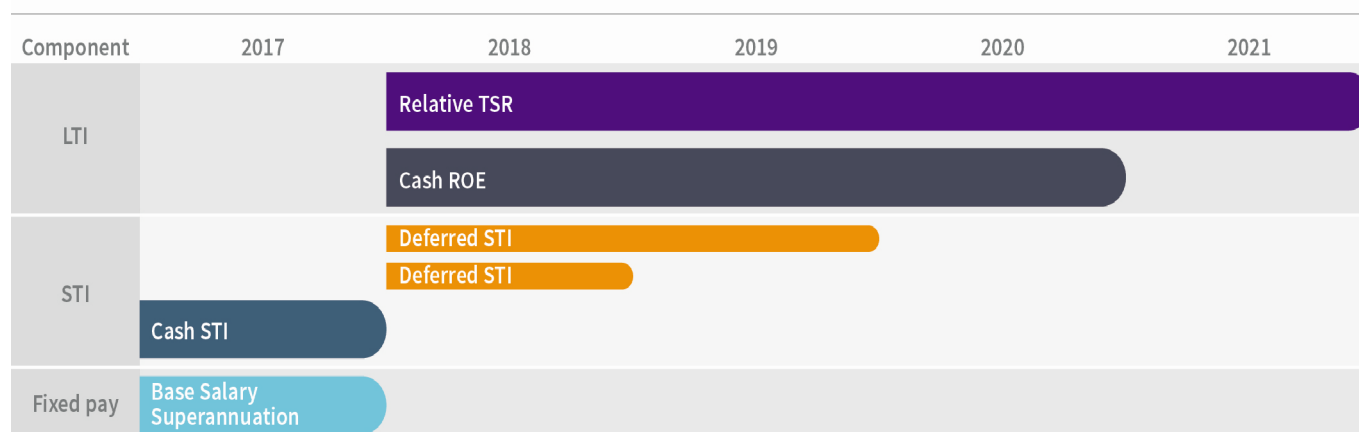
The Executive remuneration approach consists of the following components: fixed pay, cash STI, deferred STI and LTI. The table below describes the structure and purpose of each component.

TABLE 1 - REMUNERATION COMPONENTS

COMPONENT	STRUCTURE	PURPOSE
Fixed pay	<p>Fixed pay comprises base salary and superannuation. Fixed pay for an Executive is determined by reference to the experience and skills an individual brings to the role, the internal relativities within the Executive Team and market pay levels for similar external roles.</p> <p>Further details relating to fixed pay are presented in table 2.</p>	Fixed pay is provided to remunerate IAG employees for performing their ongoing work.
STI	<p>STI is provided on an annual basis subject to the achievement of short term goals agreed by the Board, outlined in the Group Balanced Scorecard.</p> <p>Two thirds of the total STI is delivered in cash in the remuneration review following the financial year end, the remaining one third is deferred over the subsequent two years based on continued service and is subject to downward adjustment if determined by the Board (termed malus).</p> <p>Further details relating to the STI plan are presented in table 3.</p>	<p>STI plays a key role in aligning superior operational outcomes for shareholders with remuneration outcomes for management. A focus for the year ended 30 June 2017 has been on encouraging collaboration.</p> <p>Deferral of incentives encourages ongoing employment of senior management and allows the Board to consider adjustment (malus). Share based remuneration reinforces the link between shareholder value creation and rewarding employees.</p>
LTI	<p>LTI rewards Executives for achieving challenging long term financial performance based on two hurdles: cash Return on Equity (ROE) over a three year period and relative Total Shareholder Return (TSR) over a four year period.</p> <p>Further details relating to the LTI plan are presented in table 4.</p>	<p>LTI creates a direct link between Executive reward and the return experienced by IAG's shareholders, subject to the two hurdles below:</p> <ul style="list-style-type: none"> ■ cash ROE provides evidence of the Group's return on shareholders' funds employed. The ROE hurdle utilises cash earnings, which is the measure used to determine the dividend paid to shareholders; and ■ relative TSR reflects the value created for shareholders through the movement of the share price and the value of dividends.

Remuneration received by the Executive Team is based on the Group's performance over a number of different time periods, as illustrated in the following graph. The timeframe of potential payments to Executives is staggered progressively from one to four years to encourage decision making which supports long term, sustainable performance.

REMUNERATION COMPONENT TIMEFRAMES



III. Remuneration mix

The mix of remuneration components in IAG’s remuneration framework is outlined in the following graph. This represents the structure based on the maximum potential earnings for the Group CEO and Executive Team. The remuneration mix is current as at 30 June 2017.

REMUNERATION MIX BASED ON MAXIMUM INCENTIVE OPPORTUNITY

GROUP CEO



EXECUTIVE TEAM MEMBER



■ Fixed pay ■ Cash STI ■ Deferred STI ■ LTI

Each remuneration component is described in more detail below.

IV. Fixed pay

TABLE 2 - FIXED PAY

Overview	Fixed pay at IAG is set with reference to the median of the external market for comparable roles, with the flexibility to adjust based on the size and complexity of the role, and the skills and experience of the Executive. Fixed pay for Australian based Executives is compared to the market using peer groups, including financial services companies in the S&P/ASX 50 Index and companies that are of similar size to that of IAG. Relevant local market peer groups are referenced for overseas based Executives.
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V. Short term incentive

TABLE 3 - STI AND DEFERRED STI

Performance gateway	The IAG Spirit describes what is important to IAG: how we serve our customers, partners, shareholders, communities and each other. The IAG Spirit gateway is designed to ensure that IAG’s employees demonstrate appropriate behaviours in the achievement of performance outcomes. Eligibility for an STI payment depends on demonstrating the IAG Spirit. The IAG Spirit is measured through demonstrating behaviour in line with IAG’s core values of being 'Closer, Braver, Faster' as evaluated by the reporting manager and approved by the second level manager.
STI opportunity	The maximum value of STI that can be granted to the Group CEO is 150% of fixed pay. The maximum value of STI that can be granted to the Executive Team is 120% of fixed pay.
Performance measures and evaluation	<p>STI is the at risk remuneration component designed to motivate and reward Executives for superior performance in the financial year. Performance is measured against the Group Balanced Scorecard using both financial and non-financial goals (the Group Balanced Scorecard is discussed in more detail in table 5a). The Group CEO’s STI is recommended by PARC based on 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 PARC based on the Group Balanced Scorecard outcome. These remuneration outcomes are subsequently recommended by PARC for approval by the Board.</p> <p>For all individuals, the Board may apply discretion in determining the STI outcomes to ensure they appropriately reflect performance.</p>
Instrument	An Executive’s STI award is paid in cash and deferred in the form of Deferred Award Rights (DARs). The cash component is two thirds of the total STI and is paid in September following the end of the performance year. The deferred component is one third of the total STI and vests in equal amounts over the subsequent two years.

Key terms of the deferred STI	<p>DARs are rights over IAG ordinary shares. DARs are granted at no cost to the Executives and no dividend is paid or payable for any unvested or vested and unexercised DARs.</p> <p>For grants of DARs made after 1 July 2017, the number of DARs issued is calculated based on the volume weighted average share price of an IAG ordinary share over the 30 days up to and including 30 June before the grant date. Prior grants utilised the closing price at 30 June to determine the number of DARs granted.</p> <p>Executives who participate in the STI plan become eligible to receive one IAG ordinary share per DAR by paying an exercise price of \$1 per tranche of DARs exercised, subject to their continuing employment with the Group at the vesting date.</p> <p>Executives may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG Securities (termed hedging).</p>
Forfeiture conditions	<p>The Board retains the discretion to adjust downwards the unvested portion of any deferred STI awards, including to zero. DARs will be forfeited if the Executive resigns before the vesting date, except in special circumstances as outlined below.</p> <p>When an Executive ceases employment in special circumstances, any unvested rights may be retained on cessation of employment up to the point they vest, subject to Board discretion. Special circumstances include: redundancy, retirement, death or total and permanent disability. Any rights retained under these circumstances will remain subject to the original vesting period unless the Board determine an alternative vesting date, which would only be done in exceptional circumstances.</p>
VI. Long term incentive TABLE 4 - LTI	
Overview	<p>LTI grants are determined annually by the Board. The grants provided are in the form of Executive Performance Rights (EPRs) that have performance hurdles which align to the Group's strategic financial targets.</p>
LTI opportunity	<p>The maximum value of LTI that can be granted to the Group CEO is 150% of fixed pay. The maximum value of LTI that can be granted to the Executive Team is 125% of fixed pay.</p>
Instrument	<p>If performance hurdles are achieved, rights granted after 1 July 2013 can be settled with IAG ordinary shares. The Board may, however, choose to exercise discretion to settle rights on vesting in cash in circumstances where it is restrictive to settle rights with shares, including in jurisdictions where legislative requirements prohibit share ownership in a foreign entity. Where rights are settled in cash, the value of the cash payment is determined based on the volume weighted average share price for the five trading days up to and including the date of vesting.</p> <p>Rights granted prior to 1 July 2013 are only settled with IAG ordinary shares.</p>
Key terms of the LTI	<p>The number of EPRs issued is calculated based on the volume weighted average share price over the 30 days up to and including 30 June before the grant date. EPRs granted during the year will not vest and have no value to the Executive unless the performance hurdles are achieved. The cash ROE performance hurdle is measured over three years, while the relative TSR hurdle is measured over four years. No dividend is paid or payable for any unvested or vested and unexercised EPRs.</p> <p>Executives may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG Securities.</p>
Forfeiture conditions	<p>The Board retains the discretion to adjust downwards the unvested portion of any LTI awards, including to zero. Under the terms of the LTI, if an Executive resigns before the performance hurdles are tested, the unvested EPRs 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 EPRs will lapse.</p> <p>When an Executive ceases employment in special circumstances, any unvested rights may be retained on cessation of employment up to the point they vest, subject to Board discretion. Special circumstances include: redundancy, retirement, death or total and permanent disability. Any rights retained under these circumstances will remain subject to the original performance conditions.</p>

PERFORMANCE HURDLES	CASH ROE	RELATIVE TSR
Description	50% weighting Cash ROE is measured relative to the Group's weighted average cost of capital (WACC).	50% weighting Relative TSR is measured against that of the top 50 industrials within the S&P/ASX 100 Index. Industrial companies are defined by Standard & Poor's as being all companies excluding those defined as being in the Energy sector (GICS Tier 1) and the Metals & Mining industry (GICS Tier 3). Companies which are no longer part of the index at the end of the performance period (for example due to acquisition or delisting), may be removed from the peer group.
Testing	The ROE portion of the LTI is tested from 1 July of the grant year to 30 June three years later. The cash ROE/WACC ratio is calculated for each half year. The average of the six half years in the three year performance period form the final outcome.	The TSR portion of the LTI is tested four years after 30 September of the grant year, with no opportunity for retesting. TSR performance is measured between 30 September of the base year, and 30 September of the test year. The opening and closing share prices used for the TSR calculation are both based on the three months to 30 September. For LTI awards granted prior to July 2013, the TSR portion is tested after three years and then again at four years and five years. Retesting was removed from subsequent LTI awards.
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.

C. LINKING THE GROUP'S PERFORMANCE AND REWARD

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

IAG's strategic priorities are to drive customer and business benefits through the 'leading' and 'fuelling' themes. Leading puts customers at the centre of what IAG does using enhanced technology, offering innovative new products through IAG's core businesses, and identifying new ways to meet ever-changing customer needs. To fuel IAG's leading position, IAG is simplifying the operations of the business, optimising resources, leveraging the benefits of IAG's supply chain and continuing to build strong partnerships. In working to achieve these priorities, IAG is mindful of its social and environmental responsibilities.

The tables below provide a summary of key balanced scorecard objectives and outcomes for the Group for the year ended 30 June 2017. The objectives are agreed with the Board at the beginning of each financial year and are designed to focus Executives on delivering superior performance outcomes against the agreed priorities. To drive collective responsibility, in the year ended 30 June 2017 each Executive shared the same objectives.

TABLE 5a - BALANCED SCORECARD OBJECTIVES

CATEGORY	OBJECTIVE	RATIONALE
Financial measures (60% of scorecard)	Growth	IAG continues to expand its product and service offerings to its markets, which creates value for its shareholders, customers and partners.
	Controllable operating expense	IAG's continued focus on optimisation of its operating model and related cost-out initiatives improve the efficiency with which IAG deploys its resources.
	Profitability	Underlying insurance margin presents a view of normalised performance, which is an important measure of how IAG generates value for shareholders.
	Return on equity	The Group sets targets to achieve a return on its equity that requires outperformance through the cycle. This return reflects how effectively IAG uses its capital.
Non-financial measures (40% of scorecard)	Customer advocacy	IAG's strategy is designed to put the customer at the centre of what IAG does. IAG considers this is essential to drive the Group's ability to grow profitably over the longer term. IAG is focused on designing compelling product offerings by developing a deeper understanding of customers' needs and the changing environment, then delivering world class customer experiences, including through digital channels. IAG uses Customer Net Promoter Score to measure the impact of these initiatives for our customers.

CATEGORY	OBJECTIVE	RATIONALE
	Partner advocacy	IAG fosters collaborative relationships with its partners to deliver mutual benefit. IAG works with distribution partners to develop joint strategies that develop their business capabilities, and aspires to provide best in class products and value added services. Ultimately, the Group aims to jointly deliver world leading experiences to mutual end customers. IAG uses Partner Net Promoter Score to measure the Group's effectiveness in delivering through partners.
	Agility	A constructive and agile culture enables IAG to provide great experiences for its people and customers.
	Risk and governance	Management of risk is integral to delivering IAG's strategy to meet short term objectives and achieve long term sustainability. IAG seeks to optimise the evaluation and pricing of risk. IAG has a clear articulation of its risk appetite, which the Board approves to uphold the expectations of IAG's stakeholders for how IAG employees conduct themselves. Due to the importance of risk management to IAG, it is included as an explicit measure on the scorecard.

TABLE 5b - BALANCED SCORECARD RESULTS FOR THE YEAR ENDED 30 JUNE 2017

OBJECTIVE AND WEIGHTING	MEASURE AND OUTCOME	COMMENT
Growth 10%	Exceeded IAG achieved Gross Written Premium (GWP) growth of 3.9%, compared to -0.6% in the year ended 30 June 2016.	Over the year, IAG's GWP increased in its Australian Consumer Division and in New Zealand. This was slightly offset by a contraction in the Australian Business Division, reflecting the sale of renewal rights to the Swann motor dealer business and planned portfolio remediation activity, and in Asia due to competitive pressures and unfavourable foreign exchange effects.
Controllable operating expense 20%	Partially exceeded Controllable expenses were lower than the prior year and slightly bettered the targeted reduction.	This result was due to favourable variances in the Australian Consumer Division, Australian Business Division and Chief Operating Office. This was partially offset by unfavourable foreign exchange effects.
Profitability 15%	Did not meet IAG's underlying insurance margin was 11.9% compared to 14.0% in the year ended 30 June 2016.	IAG's Australian and New Zealand businesses were adversely impacted this year by claims cost pressures and an unusually high incidence of large losses.
Return on equity 15%	Exceeded The Group's cash ROE was 15.2% for the year ended 30 June 2017, compared to 13.0% in the prior year.	The Group achieved its return on equity target for the year. Solid shareholders' fund investment returns in conjunction with prior year reserve releases contributed to this success.
Customer advocacy 15%	Partially exceeded IAG sets a full year Customer Net Promoter Score (NPS) relative to its peers. IAG's NPS is +7 NPS above the competitive market average. This exceeded the target range of +4 to +6 NPS points above the competitor average.	The superior result in customer advocacy was driven by strong performances by NRMA, Coles Insurance, CGU and WFI; achieving absolute Strategic Customer NPS scores of +25, +28, +37 and +27 respectively. IAG continues to invest in its customer advocacy programs to drive improvements across the customer journey.

OBJECTIVE AND WEIGHTING	MEASURE AND OUTCOME	COMMENT
Partner advocacy 5%	Met IAG sets a full year Partner NPS target. IAG's partner brands (CGU and NZI) achieved an NPS of +24.	IAG's partner brands outperformed their competitive market means, with the 2017 financial year Strategic Partner NPS results of +31 and +15 for CGU and NZI respectively. In the 2017 financial year, both CGU and NZI were voted Insurer of the Year in their respective industry surveys.
Agility 10%	Partially met Measured based on performance against agility-related components of IAG's culture survey. Whilst target results were achieved for some behaviours and outcomes achieved target results, IAG failed to achieve the target for all measures.	IAG continues to invest in building a constructive and agile culture. While the Group did not realise targets set for the current year, significant progress has been made in delivering a Diversity, Inclusion and Belonging strategy and framework; as well as strengthening community connection through Shared Value initiatives and the IAG Foundation. Further focus is required to embed leadership capability, and continuing to create a positive and effective employee experience. The Leading@IAG program was launched during the 2017 financial year. This program will help connect structure with strategy, provide role clarity to employees, and set clear expectations for leadership behaviours with a particular focus on building trust and empowering people.
Risk and governance 10%	Partially met IAG partially met new targets designed to deliver a step change in IAG's risk management practices.	IAG continues to strengthen its risk management framework, with ongoing focus on embedding improvements to risk management and governance models made during the 2017 financial year. Key achievements during the year included delivering further improvements in IAG's risk management practices in relation to Operational Risk, Regulatory Compliance, Enterprise Risk Profiling, Cyber resilience and an overall uplift in risk management maturity.

II. STI outcomes for the year ended 30 June 2017

Set out below are the STI outcomes that will be made to Executives who were classed as a KMP for the full year ended 30 June 2017. STI outcomes are based on achievement against the Group Balanced Scorecard objectives described in table 5a. Reflecting the desire to encourage collaboration among Executives, all shared the same performance measures. The Board has the ability to adjust each Executive's STI up or down by 20%. The Board decided to cap Executive STI outcomes at the overall Group Balanced Scorecard result of 67%, with individual performance being reflected in the different outcomes for Executives. The average STI for all Executives was 64%.

TABLE 6 - ACTUAL STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2017

	MAXIMUM STI OPPORTUNITY		ACTUAL STI OUTCOME		CASH STI OUTCOME	DEFERRED STI OUTCOME
	(% of fixed pay)	(% of maximum) ^(a)	(% of fixed pay)	(% of maximum) ^(a)	(2/3 OF OUTCOME) (% of fixed pay)	(1/3 OF OUTCOME) (% of fixed pay)
Peter Harmer	150 %	67 %	101 %	67 %	67 %	34 %
Julie Batch	120 %	63 %	76 %	50 %	50 %	26 %
Chris Bertuch	120 %	67 %	80 %	54 %	54 %	26 %
Ben Bessell	120 %	55 %	66 %	44 %	44 %	22 %
Duncan Brain	120 %	67 %	80 %	54 %	54 %	26 %
David Harrington	120 %	67 %	80 %	54 %	54 %	26 %
Nicholas Hawkins	120 %	67 %	80 %	54 %	54 %	26 %
Jacki Johnson	120 %	60 %	72 %	48 %	48 %	24 %
Anthony Justice	120 %	67 %	80 %	54 %	54 %	26 %
Mark Milliner	120 %	67 %	80 %	54 %	54 %	26 %
Craig Olsen	120 %	67 %	80 %	54 %	54 %	26 %
Clayton Whipp	120 %	50 %	60 %	40 %	40 %	20 %

(a) The proportion of STI forfeited is derived by subtracting the actual percentage of maximum received from 100% and was 36% on average for the year ended 30 June 2017 (compared to 33% in 2016).

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

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

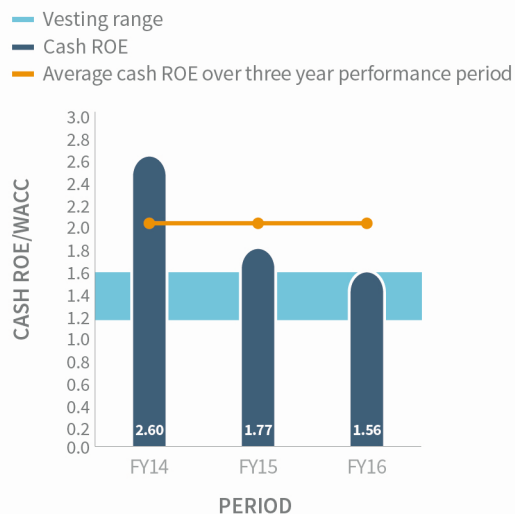
Cash ROE – 100% vesting

Cash ROE is calculated after each half year by comparing the cash earnings of the Group against the average equity for that period. This cash ROE figure is then expressed as a multiple of the Group's WACC over the same half-year period. The ROE vesting outcome is based on the average ROE to WACC multiple over each of the six half years during the performance period.

For the performance period from 1 July 2013 to 30 June 2016, the average cash ROE was 2.00 times WACC. This award vested in full in the year ended 30 June 2017. The strong cash ROE performance has similarly been reflected in the dividend provided to shareholders.

The Board considers any adjustments to cash earnings during the three year performance period to ensure reward outcomes appropriately reflect performance. The Board determined that impairments for software announced to the market on 19 August 2016 would be included when determining the cash ROE vesting outcome.

IAG HISTORICAL CASH ROE OVER WACC FOR THE LTI PLAN

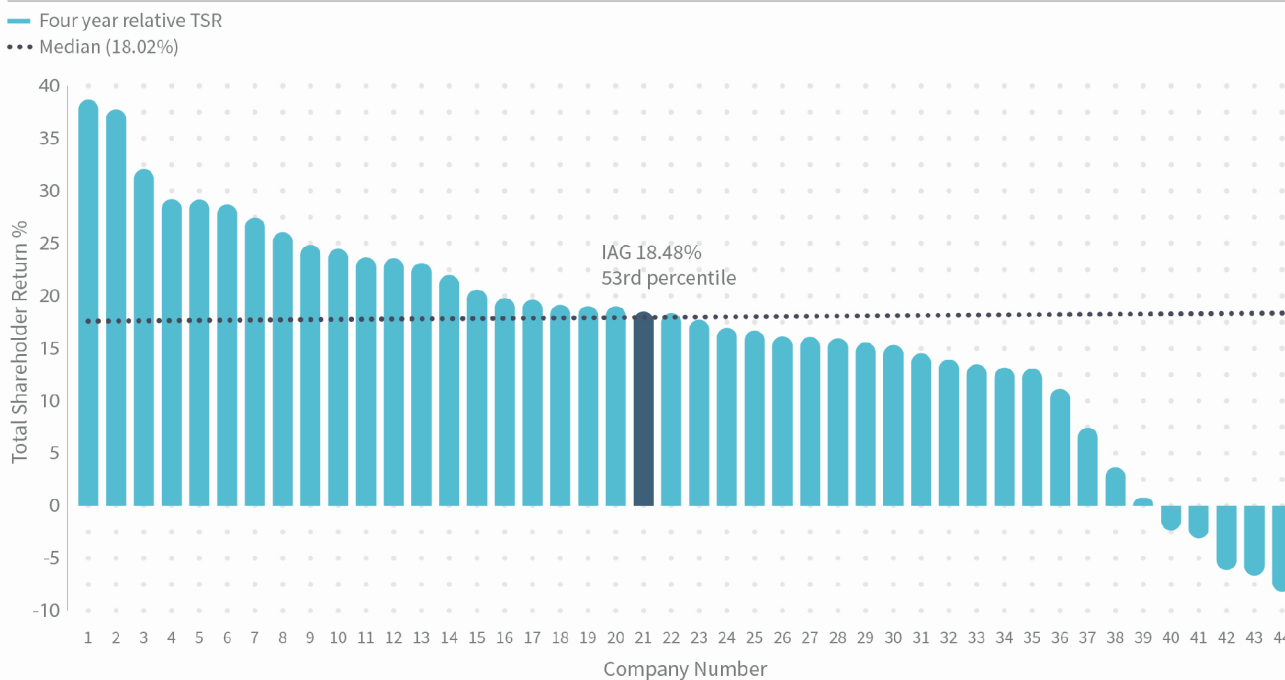


Relative TSR - additional 2% vesting

There was a legacy retest of the 2012/2013 LTI award on 30 September 2016. Following the retest, IAG's TSR was ranked at the 53rd percentile of its peer group, resulting in an overall vesting outcome of 56%. This result translated to an additional 2% vesting above the 54% that had already vested following the test on 30 September 2015. The final retest for this grant will occur on 30 September 2017. This will be the last retest performed for any LTI award.

The following graph illustrates IAG's relative TSR against the top 50 industrial companies in the ASX 100 for the 2012/2013 LTI award:

IAG'S RELATIVE TSR AGAINST TOP 50 INDUSTRIAL COMPANIES IN ASX100



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

	YEAR ENDED 30 JUNE 2013	YEAR ENDED 30 JUNE 2014	YEAR ENDED 30 JUNE 2015	YEAR ENDED 30 JUNE 2016	YEAR ENDED 30 JUNE 2017
Closing share price (\$)	5.44	5.84	5.58	5.45	6.78
Dividends per ordinary share (cents)	36.00	39.00	29.00	36.00 ^(a)	33.00
Basic earnings per share (cents)	37.57	56.09	31.22	25.79	39.03
Cash ROE (%)	25.3	23.0	15.3	13.0	15.2
Three year average cash ROE to WACC outcome for EPR Plan	1.83	2.34	2.47	2.00 ^(b)	1.76^(b)

(a) This includes the 10.00 cents (per ordinary share) 2016 special dividend.

(b) Outcomes in table 7 reflect IAG's average cash ROE to WACC prior to the Board considering the impact of the software impairments announced to the market on 19 August 2016. The impact of the software impairments was to reduce average cash ROE to WACC by 0.09 times WACC in the three years to 30 June 2016 and 0.08 times WACC in the three years to 30 June 2017.

IV. Changes to Executive appointments and remuneration impacts

Increases to an Executive's fixed pay are generally only provided in situations where either their pay is below market levels, or where there has been a material change in the responsibilities of their role. During the 2017 financial year Duncan Brain and Anthony Justice received fixed pay increases to meet market pay levels. Julie Batch and Nicholas Hawkins received fixed pay increases to reflect a change in their role. The table below summarises how changes in roles within the Executive Team during the last two financial years have been reflected in Executive pay.

TABLE 8 - CHANGES IN ROLE AND IMPACTS ON REMUNERATION DURING 2017 AND 2016

	YEAR	FIXED PAY \$000	CHANGE IN ROLE	PART YEAR KMP	SUMMARY OF CHANGES
EXECUTIVES					
Peter Harmer	2017 2016	1,700 1,460	✓		Appointed as Group CEO on 16 November 2015, with an increase in remuneration at that time to reflect the increased responsibilities.
Julie Batch	2017 2016	662 343	✓ ✓	✓	Appointed to a role classed as KMP on 8 December 2015. Julie Batch received a fixed pay increase in the year ended 30 June 2017 to reflect the expansion of her role to include responsibility for Digital Labs.
Chris Bertuch	2017 2016	700 400	✓	✓	Appointed as KMP on 8 December 2015. The remuneration for the year ended 30 June 2016 reflects the period served as KMP which was less than twelve months.
Ben Bessell	2017 2016	700 686	✓		Appointed the Chief Executive, Australian Business Division (previously acting Chief Executive Commercial Insurance) on 8 December 2015.
Duncan Brain	2017 2016	943 934			Served as KMP for both financial years with no change in role.
David Harrington	2017 2016	600 346	✓	✓	Appointed as KMP on 8 December 2015. The remuneration for the year ended 30 June 2016 reflects the period served as KMP which was less than twelve months.
Nicholas Hawkins	2017 2016	1,173 1,026	✓		Changed role 8 December 2015 to incorporate leadership of the NZ and Asian businesses. Subsequently received a fixed pay increase in the year ended 30 June 2017 to reflect the increased responsibility.
Jacki Johnson	2017 2016	1,091 1,053	✓		Changed role on 1 January 2016 to become Group Executive, People Performance and Reputation. Previously, Jacki Johnson was the Chief Executive, New Zealand. There was no adjustment to remuneration.
Anthony Justice	2017 2016	690 372	✓	✓	Appointed as KMP on 8 December 2015. The remuneration for the year ended 30 June 2016 reflects the period served as KMP which was less than twelve months.
Mark Milliner	2017 2016	1,000 181	✓	✓	Commenced as the Chief Operating Officer at IAG on 27 April 2016. Remuneration was set upon appointment with no subsequent changes.
Craig Olsen	2017 2016	711 330	✓	✓	Appointed as KMP on 1 January 2016. The remuneration for the year ended 30 June 2016 reflects the period served as KMP which was less than twelve months.
Clayton Whipp	2017 2016	775 784			Served as KMP for both financial years with no change in role.
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL					
Claire Rawlins	2017 2016	250 341	✓	✓	Appointed to a role classed as KMP on 8 December 2015 and ceased as KMP on 7 December 2016. Claire Rawlins' remuneration for both years reflects the period served as a KMP. In each financial year the period served was less than twelve months.

V. Actual remuneration received by Executives

Table 9 below provides details of the remuneration received by Executives during the financial year. The table provides fixed pay and other benefits paid, and the value of prior years' deferred STI and LTI awards that vested during the financial year. For remuneration details provided in accordance with the Accounting Standards, refer to Appendix 1. Statutory remuneration disclosure requirements.

TABLE 9 - ACTUAL REMUNERATION RECEIVED IN 2017 AND 2016

	FINANCIAL YEAR	FIXED PAY \$000 (1)	OTHER BENEFITS AND LEAVE ACCRUALS \$000 (2)	TERMINATION BENEFITS \$000 (3)	CASH STI \$000 (4)	DEFERRED STI VESTED \$000 (5)	LTI VESTED \$000 (6)	TOTAL ACTUAL REMUNERATION RECEIVED \$000
EXECUTIVES								
Peter Harmer	2017	1,700	17	-	1,139	288	697	3,841
	2016	1,460	70	-	905	311	1,428	4,174
Julie Batch	2017	662	(11)	-	353	110	111	1,225
	2016	343	34	-	153	-	-	530
Chris Bertuch	2017	700	(4)	-	375	129	127	1,327
	2016	400	33	-	138	-	-	571
Ben Bessell	2017	700	33	-	308	82	91	1,214
	2016	686	31	-	271	83	161	1,232
Duncan Brain	2017	943	341	-	508	217	620	2,629
	2016	934	261	-	532	154	273	2,154
David Harrington	2017	600	3	-	322	112	125	1,162
	2016	346	33	-	160	-	-	539
Nicholas Hawkins	2017	1,173	25	-	643	327	697	2,865
	2016	1,026	(48)	-	593	318	1,428	3,317
Jacki Johnson ⁽⁷⁾	2017	1,091	(40)	-	524	240	644	2,459
	2016	1,053	92	-	585	252	1,286	3,268
Anthony Justice	2017	690	(6)	-	375	71	-	1,130
	2016	372	(6)	-	156	-	-	522
Mark Milliner	2017	1,000	22	-	536	-	-	1,558
	2016	181	20	-	-	-	-	201
Craig Olsen ⁽⁸⁾	2017	711	33	-	381	74	79	1,278
	2016	330	36	-	124	-	-	490
Clayton Whipp	2017	775	11	-	310	153	127	1,376
	2016	784	64	-	415	117	243	1,623
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Claire Rawlins ⁽⁹⁾	2017	250	(15)	600	126	-	-	961
	2016	341	32	-	152	-	-	525

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

(2) Further details are provided in table 14 in Appendix 1. Statutory remuneration disclosure requirements.

(3) Payment in lieu of notice, which incorporates statutory notice and severance entitlements.

(4) Cash STI earned within the year ended 30 June 2017 and to be paid in September 2017.

(5) The deferred STI vesting on 1 September 2016 was valued using the five day weighted average share price \$5.60 (1 September 2015: \$5.14).

(6) The LTI vested was valued using the five day weighted average share price at vesting date which was \$5.90 for awards vested on 22 August 2016 and \$5.46 for awards vested on 30 September 2016 (24 August 2015: \$5.50 and 30 September 2015: \$4.84).

(7) Remuneration for Jacki Johnson was determined in New Zealand dollars and reported in Australian dollars for the period between 1 July 2015 and 31 December 2015 using the average exchange rate for the year ended 30 June 2016, which was 1 NZD = 0.91957 AUD.

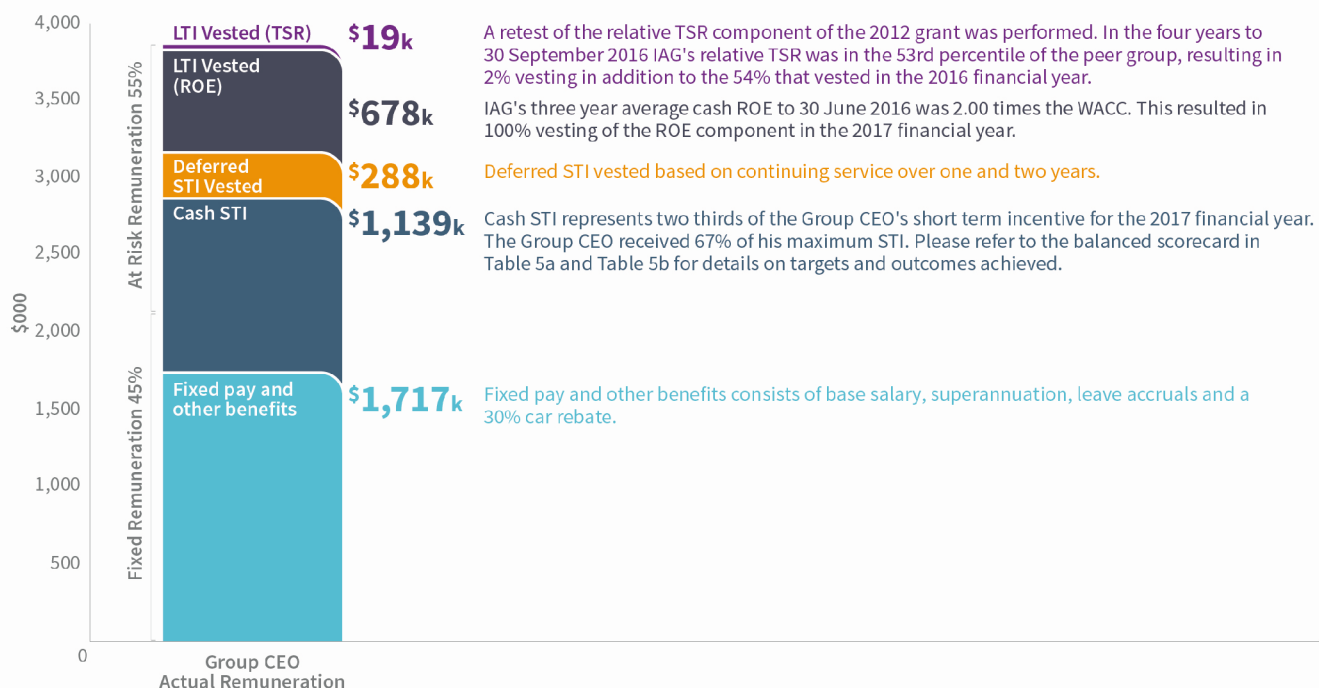
(8) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2017 which was 1 NZD = 0.94497 AUD.

(9) Claire Rawlins was a KMP for the period up to 7 December 2016. Claire Rawlins received a payment in lieu of notice of \$600,000, equivalent to 12 months' fixed pay, under the terms of her contract upon her termination.

VI. Group CEO remuneration

Below are further details on drivers of the actual remuneration received by the Group CEO that are outlined in table 9. His remuneration has been broken down into the components of the remuneration mix, with commentary on how performance has translated into remuneration outcomes.

GROUP CEO FY17 PERFORMANCE AND ACTUAL REMUNERATION OUTCOMES



VII. Remuneration allocated to Executives

The following table provides details of the remuneration allocated to each Executive who was a KMP for the entire year ended 30 June 2017. This table comprises: fixed pay, STI awarded for performance during the financial year to be paid in September 2017, and LTI grants made during the financial year. The difference between this table and table 9 is that table 9 includes the value of equity awards (LTI and deferred STI) that vested during the year, whereas table 10 includes the face value of equity awards that were allocated during the year. For remuneration details provided in accordance with the Accounting Standards, refer to Appendix 1. Statutory remuneration disclosure requirements.

TABLE 10 - TOTAL PAY ALLOCATED FOR THE YEAR ENDED 30 JUNE 2017

	Fixed pay \$'000 (1)	Other benefits and leave accruals \$'000 (2)	Cash STI \$'000 (3)	Total cash remuneration \$'000 (4)	EQUITY PAY		Total awarded remuneration \$'000 (7)
					STI deferred \$'000 (5)	LTI allocation \$'000 (6)	
					Peter Harmer	1,700	
Julie Batch	662	(11)	353	1,004	176	875	2,055
Chris Bertuch	700	(4)	375	1,071	188	875	2,134
Ben Bessell	700	33	308	1,041	154	875	2,070
Duncan Brain	943	341	508	1,792	254	1,184	3,230
David Harrington	600	3	322	925	161	750	1,836
Nicholas Hawkins	1,173	25	643	1,841	322	1,500	3,663
Jacki Johnson	1,091	(40)	524	1,575	262	1,364	3,201
Anthony Justice	690	(6)	375	1,059	188	875	2,122
Mark Milliner ⁽⁸⁾	1,000	22	536	1,558	268	2,500	4,326
Craig Olsen	711	33	381	1,125	190	864	2,179
Clayton Whipp	775	11	310	1,096	155	969	2,220

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

(2) Further details are provided in table 14 in Appendix 1. Statutory remuneration disclosure requirements.

(3) Cash STI earned within the year ended 30 June 2017 to be paid in September 2017.

(4) The sum of columns 1 to 3.

(5) The deferred component of the STI earned within the year ended 30 June 2017, which is one third of the total STI and vests in equal amounts over the subsequent two years.

- (6) The value of the LTI awards granted to Executives within the year ended 30 June 2017. The value ultimately received by Executives will be dependent on IAG meeting challenging performance targets over a three and four year period. Further details are provided in table 4.
- (7) The sum of columns 4 to 6.
- (8) In the year ended 30 June 2017, Mark Milliner received LTI awards for two financial years. Mr Milliner commenced his employment after the annual grant of LTI for the year ended 30 June 2016, therefore this grant was made in the year ended 30 June 2017.

VIII. Fixed pay changes for the year ending 30 June 2018

In August 2017 the Board determined to maintain the current fixed pay levels for all Executives except the Chief Executive, New Zealand and the Group Executive, Office of the CEO. All other Executives including the Group CEO have not received fixed pay increases.

IX. Upcoming LTI awards

The proposed LTI awards to Executives for the year ending 30 June 2018 will again be 150% of fixed pay for the Group CEO, and 125% of fixed pay for other Executives, other than for Anthony Justice who will leave IAG on 18 November 2017. The value of these LTI allocations will be calculated based on the Executive's fixed pay at the time of grant. The LTI allocation for the Group CEO will be subject to approval by shareholders at the AGM.

D. EXECUTIVE REMUNERATION GOVERNANCE

I. IAG's approach to remuneration governance

IAG governs its remuneration through the Board and PARC. These governance arrangements are illustrated in the following chart.



II. Use of remuneration consultants

PARC engaged Pay Governance as external remuneration consultants to independently review IAG's approach to Executive remuneration. This review is ongoing as part of a comprehensive review of IAG's remuneration structure. No remuneration recommendations were provided in the year ended 30 June 2017. EY was engaged during the year to provide Non-Executive Director and 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 DARs and EPRs 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.

Annually PARC makes a recommendation to the Board on whether to adjust variable reward. This assessment requires the Group CEO, the Chief Risk Officer, the Chief Financial Officer, Group Executive People, Performance and Reputation, Chief Actuary and all Executives with profit and loss responsibility to attest as to whether an adjustment is necessary to the remuneration of any individual or group of employees. PARC and the Board separately consider these attestations in conducting their own assessment of whether an adjustment of variable remuneration is required. In the year ended 30 June 2017, this assessment did not reveal any requirement for the Board to adjust remuneration.

IV. Mandatory shareholding requirement for Executives

The Group CEO is required to accumulate and hold IAG ordinary shares with a value of two times his base salary, and the Executive Team one times their respective base salaries. Executives have four 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 2013 met the mandatory shareholding requirement at 30 June 2017.

E. 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. Mandatory shareholding requirement for Non-Executive Directors

Non-Executive Directors are required to hold IAG shares with a value equal to their annual Board fee. The Non-Executive Directors have three years from the date of their appointment to the Board to meet their required holding. Compliance with this requirement is assessed at the end of each financial year. For the test conducted at 30 June 2017, this requirement was assessed using the closing share price at 30 June and the Non-Executive Directors' Board fee from three years prior. Non-Executive Directors appointed prior to 30 June 2014 were required to meet the mandatory shareholding requirement at 30 June 2017 and all have done so.

From the year ending 30 June 2018, the mandatory shareholding requirement for Non-Executive Directors will be set based on either the value of shares at acquisition or the market value at the testing date, whichever is higher. Each Non-Executive Director will continue to be required to hold shares to the value of their annual Board fee, with a three year period allowed to reach that holding. This change is intended to allow Non-Executive Directors to build a long-term shareholding in IAG without being impacted by short term share price volatility.

III. Board performance

The Board conducts a review of its performance, composition, size and succession annually and it conducts an independent review of these matters at least every three years with the assistance of 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 involves the completion of questionnaires by Non-Executive Directors and 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. 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. Remuneration structure

Non-Executive Director remuneration is comprised of:

- board fees (paid as cash, superannuation and Non-Executive Director Award Rights);
- committee fees; and
- subsidiary board fees.

a. CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION DURING THE YEAR ENDED 30 JUNE 2017

In August 2016, the Board approved a fee increase of 2.0% for Chairman and director fees paid for service on the IAG Limited Board, with all Committee fees remaining unchanged. The Board has determined that there will be no increase to Board fees for the year ended 30 June 2018. Fees for the Nomination Committee have been removed for the Chair and all directors. 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	2017	\$577,166	\$192,372
	2016	\$565,800	\$188,600
Audit Committee	2017	\$50,000	\$25,000
	2016	\$50,000	\$25,000
Risk Committee	2017	\$50,000	\$25,000
	2016	\$50,000	\$25,000
People and Remuneration Committee	2017	\$50,000	\$25,000
	2016	\$50,000	\$25,000
Nominations Committee*	2017	N/A	N/A
	2016	N/A	\$10,000

* In the year ended 30 June 2016 the Chair of the Nominations Committee is also the Chairman of the Group, therefore no Chair fee was 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	\$141,746

* This amount was paid to Hugh Fletcher in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2017 which was 1 NZD = 0.94497 AUD.

TABLE 13 - NON-EXECUTIVE DIRECTOR AWARD RIGHTS (NAR) PLAN

Overview	PARC has determined that the annual remuneration paid by IAG to Non-Executive Directors for their services may be delivered partially in cash and partially in rights over IAG shares. Participation in the NAR Plan is voluntary. Structuring Non-Executive Director remuneration in this way supports Non-Executive Directors in building their shareholdings in the Group, which enhances the alignment of interests between Non-Executive Directors and shareholders.
Performance measures	<p>There are no performance conditions attached to the NAR Plan, which reflects good governance practices by ensuring that the structure of Non-Executive Director remuneration does not act to bias decision making or compromise objectivity.</p> <p>A service condition is attached to the vesting of the NARs. The full annual allocation of unvested NARs are issued at the grant date, with tranches vesting each month to align the vesting of NARs with the payment of Non-Executive Director fees. As the grant date for NARs is part way through a financial year, a proportion of the NARs granted are immediately vested.</p>
Instrument	Grants under the NAR Plan are in the form of NARs over IAG shares. Each NAR entitles the Non-Executive Director to acquire one ordinary share in IAG subject to satisfaction of a service condition.
Key terms of the NAR Plan	<p>The Non-Executive Director and IAG agree a proportion of the base Board fee to be provided as NARs. The number of NARs offered is determined by dividing this value by the five day volume weighted average share price up to and including the grant date, rounded to the nearest NAR.</p> <p>Non-Executive Directors have no voting rights until the NARs are exercised and the Non-Executive Director holds shares in IAG.</p> <p>Non-Executive Directors do not have to pay any amount to exercise NARs.</p> <p>NARs expire on the date that is 15 years from the grant date, or any other date determined by the Board (Expiry Date). NARs that are not exercised before the Expiry Date will lapse.</p> <p>Non-Executive Directors may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG Securities.</p>
Forfeiture conditions	In the event a Non-Executive Director ceases service with the Board, any vested NARs may be exercised for shares in IAG in the subsequent trading window. Any unvested NARs will lapse. Under certain circumstances (e.g. change of control), the Board also has sole and absolute discretion to deal with the rights, including waiving any applicable vesting conditions and/or exercise conditions by giving notice or allowing a Non-Executive Director affected by the relevant event to transfer their rights.

APPENDIX 1. 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 14 - 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	%	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)			
EXECUTIVES											
Peter Harmer ⁽⁹⁾											
2017	1,665	1,139	(8)	35	25	-	2,856	307	1,139	4,302	60
2016	1,425	905	16	35	54	-	2,435	313	1,016	3,764	59
Julie Batch ⁽¹⁰⁾											
2017	632	353	(21)	30	10	-	1,004	111	267	1,382	53
2016	326	153	16	17	18	-	530	110	171	811	54
Chris Bertuch ⁽¹⁰⁾											
2017	665	375	(14)	35	10	-	1,071	118	302	1,491	53
2016	380	138	25	20	8	-	571	131	195	897	52
Ben Bessell ⁽¹¹⁾											
2017	670	308	23	30	10	-	1,041	96	285	1,422	48
2016	656	271	(5)	30	36	-	988	86	156	1,230	42
Duncan Brain											
2017	908	508	327	35	14	-	1,792	1,090	723	3,605	64
2016	899	532	245	35	16	-	1,727	815	719	3,261	63
David Harrington ⁽¹⁰⁾											
2017	565	322	(6)	35	9	-	925	113	276	1,314	54
2016	326	160	29	20	4	-	539	96	163	798	53
Nicholas Hawkins											
2017	1,143	643	8	30	17	-	1,841	293	853	2,987	60
2016	996	593	(35)	30	(13)	-	1,571	341	977	2,889	66
Jacki Johnson ⁽¹²⁾⁽¹³⁾											
2017	1,056	524	(56)	35	16	-	1,575	234	857	2,666	61
2016	1,025	585	78	28	14	-	1,730	258	957	2,945	61
Anthony Justice ⁽¹⁰⁾											
2017	660	375	(16)	30	10	-	1,059	92	249	1,400	51
2016	355	156	(17)	17	11	-	522	64	76	662	45
Mark Milliner ⁽¹⁴⁾											
2017	965	536	7	35	15	-	1,558	235	232	2,025	50
2016	176	-	19	5	1	-	201	-	-	201	-
Craig Olsen ⁽¹⁵⁾⁽¹⁶⁾											
2017	711	381	33	-	-	-	1,125	87	261	1,473	49
2016	330	124	36	-	-	-	490	75	130	695	47
Clayton Whipp											
2017	740	310	-	35	11	-	1,096	187	437	1,720	54
2016	749	415	48	35	16	-	1,263	184	321	1,768	52
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL											
Claire Rawlins ⁽¹⁰⁾⁽¹⁷⁾											
2017	233	126	(13)	17	(2)	600	961	-	(15)	946	12
2016	321	152	30	20	2	-	525	-	21	546	32

(1) Base salary includes amounts paid in cash plus the portion of the Group's superannuation contribution that is paid as cash instead of being paid into superannuation, 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 2016 to 30 June 2017.

- (3) This column includes annual and mid-service 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; and Craig Olsen: salary continuance insurance.
- (4) Superannuation represents the employer's contributions.
- (5) Long service leave accruals as determined in accordance with AASB 119.
- (6) Payment in lieu of notice which incorporates statutory notice and severance entitlements.
- (7) The deferred STI is granted as DARs and is valued using the Black-Scholes valuation model. An allocated portion of unvested DARs are included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2017 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 EPRs. To determine the value of EPRs, a Monte Carlo simulation (for the relative TSR performance hurdle) and Black-Scholes valuation (for the cash ROE performance hurdle) 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 the grant date, 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) Peter Harmer was appointed Group CEO on 16 November 2015. His remuneration increased upon his appointment.
- (10) Executive Team members were appointed to KMP roles on 8 December 2015.
- (11) Ben Bessell was appointed to the role of Chief Executive, Australian Business Division on 8 December 2015. Mr Bessell was previously acting Chief Executive, Commercial Insurance.
- (12) Jacki Johnson was appointed to the role of Group Executive, People Performance and Reputation on 1 January 2016. Prior to this, Jacki Johnson was the CEO IAG New Zealand.
- (13) Prior year remuneration for Jacki Johnson was determined in New Zealand dollars and reported in Australian dollars for the period between 1 July 2015 and 31 December 2015 using the average exchange rate for the year ended 30 June 2016, which was 1 NZD = 0.91957 AUD.
- (14) Mark Milliner commenced with IAG on 27 April 2016.
- (15) Craig Olsen commenced as a KMP on 1 January 2016 upon appointment to the role of CEO IAG New Zealand.
- (16) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2017 which was 1 NZD = 0.94497 AUD.
- (17) Claire Rawlins received a payment in lieu of notice of \$600,000 upon her termination in accordance with her contractual terms.

II. Total remuneration details for Non-Executive Directors

Details of total remuneration for Non-Executive Directors for the year ended 30 June 2017 are set out below:

TABLE 15 - 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					
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
NON-EXECUTIVE DIRECTORS							
Elizabeth Bryan							
2017	474	226	19	-	-	97	816
2016	276	111	19	-	-	-	406
Duncan Boyle ⁽¹⁾							
2017	92	18	10	-	-	-	120
Alison Deans							
2017	149	32	20	-	-	24	225
2016	172	28	19	-	-	-	219
Hugh Fletcher							
2017	176	187	21	-	-	-	384
2016	172	184	21	-	-	-	377
Jonathan Nicholson							
2017	177	46	20	-	-	-	243
2016	145	36	14	-	-	-	195
Helen Nugent ⁽¹⁾							
2017	69	26	11	-	-	24	130
Tom Pockett							
2017	180	68	19	-	-	-	267
2016	177	78	19	-	-	-	274
Philip Twyman							
2017	180	70	19	-	-	-	269
2016	177	82	19	-	-	-	278
NON-EXECUTIVE DIRECTORS WHO CEASED AS KEY MANAGEMENT PERSONNEL							
Raymond Lim							
2017	113	14	12	-	-	-	139
2016	172	23	19	-	-	-	214

(1) Non-Executive Directors appointed part way through the year ended 30 June 2017.

APPENDIX 2. EXECUTIVE EMPLOYMENT AGREEMENTS

Details are provided below of contractual elements for the Group CEO and Executive Team: 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. 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 12 month 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 maximum benefit under the retrenchment policy is 87 weeks of base salary, 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.

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. Executives who ceased employment in the financial year

All termination benefits provided to 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.

Termination benefits for Claire Rawlins included a contractual payment in lieu of notice of \$600,000. No other payments were provided to Ms Rawlins upon termination.

APPENDIX 3. MOVEMENT IN EQUITY PLANS WITHIN THE FINANCIAL YEAR

Changes in each Executive's holding of DARs and EPRs and each Non-Executive Director's holdings of NARs during the financial year are set out below. The DARs granted during the year reflect the deferred portion of the STI outcome for the year ended 30 June 2016. The EPRs granted during the year ended 30 June 2017 were in relation to the LTI plan. The NARs granted during the year represents the total number of rights a Non-Executive Director has agreed to receive as part of the payment of their base Board fees.

TABLE 16 - MOVEMENT IN POTENTIAL VALUE OF DARs, EPRs AND NARs FOR THE YEAR ENDED 30 JUNE 2017

		RIGHTS ON ISSUE 1 JULY (1)	RIGHTS GRANTED DURING THE YEAR (2)	RIGHTS EXERCISED DURING THE YEAR (3)	RIGHTS LAPSED DURING THE YEAR	RIGHTS ON ISSUE 30 JUNE	RIGHTS VESTED DURING THE YEAR	RIGHTS VESTED AND EXERCIS- ABLE 30 JUNE
		Number	Number Value (\$000)	Number Value (\$000)	Number Value (\$000)	Number	Number	Number
EXECUTIVES								
Peter Harmer	DAR	72,650	83,100 409	(51,400) 303	- -	104,350	51,400	-
	EPR	898,283	467,900 1,580	(118,421) 697	- -	1,247,762	118,421	-
Julie Batch	DAR	29,450	24,900 122	(19,600) 115	- -	34,750	19,600	-
	EPR	176,929	151,200 522	(18,923) 111	- -	309,206	18,923	-
Chris Bertuch	DAR	33,950	22,500 111	(22,950) 135	- -	33,500	22,950	-
	EPR	203,045	160,600 542	(21,615) 127	- -	342,030	21,615	-
Ben Bessell	DAR	22,850	24,900 122	(14,600) 86	- -	33,150	14,600	-
	EPR	199,700	160,600 542	(36,116) 213	- -	324,184	15,547	-

		RIGHTS ON ISSUE 1 JULY (1)	RIGHTS GRANTED DURING THE YEAR (2)	RIGHTS EXERCISED DURING THE YEAR (3)		RIGHTS LAPSED DURING THE YEAR		RIGHTS ON ISSUE 30 JUNE	RIGHTS VESTED DURING THE YEAR	RIGHTS VESTED AND EXERCIS- ABLE 30 JUNE	
		Number	Number	Value (\$000)	Number	Value (\$000)	Number	Value (\$000)	Number	Number	Number
Duncan	DAR	418,350	48,900	240	(38,800)	229	-	-	428,450	38,800	-
Brain	EPR	629,379	217,300	734	(104,550)	616	-	-	742,129	105,223	673
David	DAR	29,450	26,000	128	(20,050)	118	-	-	35,400	20,050	-
Harrington	EPR	182,491	137,700	465	(20,900)	123	-	-	299,291	21,217	317
Nicholas	DAR	85,350	54,400	268	(58,350)	344	-	-	81,400	58,350	-
Hawkins	EPR	755,483	275,300	930	(118,421)	697	-	-	912,362	118,421	-
Jacki	DAR	61,700	53,700	264	(42,950)	253	-	-	72,450	42,950	-
Johnson	EPR	757,033	250,300	845	(106,250)	626	-	-	901,083	109,421	3,171
Anthony	DAR	20,600	25,300	124	(12,750)	75	-	-	33,150	12,750	-
Justice	EPR	122,800	160,600	542	-	-	-	-	283,400	-	-
Mark	DAR	-	150,000	714	-	-	-	-	150,000	-	-
Milliner ⁽⁴⁾	EPR	-	453,500	1,715	-	-	-	-	453,500	-	-
Craig Olsen	DAR	20,350	23,200	114	(13,150)	77	-	-	30,400	13,150	-
	EPR	154,962	158,700	536	(13,394)	79	-	-	300,268	13,394	-
Clayton	DAR	65,150	38,200	188	(27,250)	160	-	-	76,100	27,250	-
Whipp	EPR	306,554	177,800	600	(21,000)	124	-	-	463,354	21,598	598
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL											
Claire	DAR	-	-	-	-	-	-	-	-	-	-
Rawlins ⁽⁵⁾	EPR	75,500	-	-	-	-	(75,500)	445	-	-	-
NON-EXECUTIVE DIRECTORS											
Elizabeth Bryan	NAR	-	18,877	97	-	-	-	-	18,877	18,877	18,877
Alison Deans	NAR	-	4,720	24	-	-	-	-	4,720	4,720	4,720
Helen Nugent	NAR	-	4,112	24	-	-	-	-	4,112	4,112	4,112

(1) Opening number of rights on issue represents the balance as at the date of appointment as KMP or 1 July 2016.

(2) The value of the DARs granted during the year is the fair value at grant date calculated using the Black-Scholes valuation model. The value of the annual DARs granted on 2 November 2016 was \$4.92 except for the grant of 150,000 DARs provided to Mark Milliner which had a value of \$4.76 per DAR. This amount is allocated to remuneration over years ending 30 June 2017 to 30 June 2019. The value of the cash ROE portion of the EPRs granted on 2 November 2016 and 24 March 2017 is the fair value at grant date, calculated using the Black-Scholes valuation model, which was \$4.51 and \$5.40 respectively. The cash ROE portion of the EPRs grants is first exercisable after the performance period concludes on 30 June 2019. The value of the relative TSR portion of the EPRs granted on 2 November 2016 and 24 March 2017 is the fair value at grant date, calculated using the Monte Carlo simulation, which was \$2.24 and \$3.00 respectively. The relative TSR portion of the EPRs is first exercisable on 30 September 2020. The amount is allocated to remuneration over the years ending 30 June 2017 to 30 June 2021. The value of the NARs granted during the year is the fair value at grant date calculated using the Black-Scholes valuation model. The value of the annual NARs granted on 15 November 2016 and 15 January 2017 was \$5.15 and \$5.95. This amount is allocated to remuneration over year ended 30 June 2017.

(3) Rights vested and exercised during the financial year. The value of the rights exercised is based on the weighted average share price for the year ended 30 June 2017, which was \$5.89.

(4) Mark Milliner received 150,000 DARs in November 2016 as compensation for incentives foregone on leaving his previous employer. As EPRs relate to future performance, Mr Milliner received two allocations of EPRs in the year ended 30 June 2017: 224,100 EPRs in relation to his first year of employment, being the year ending 30 June 2016 under the terms of the 2015/2016 Series 6 EPR and 229,400 EPRs in relation to the year ending 30 June 2017 under the terms of the 2016/2017 Series 6 EPR.

(5) The rights on issue at 30 June for Claire Rawlins represents the balance as at 7 December 2016.

I. LTI awards outstanding during the year ended 30 June 2017

Details of outstanding LTI awards made to Executives in the year ended 30 June 2017 are shown in the table below:

TABLE 17 - LTI AWARDS OUTSTANDING DURING THE YEAR ENDED 30 JUNE 2017

AWARD	GRANT DATE	BASE DATE	FIRST TEST DATE	LAST TEST DATE	PERFORMANCE HURDLE ACHIEVEMENT	LAST EXERCISE DATE
2016/2017 Series 6 - TSR ^(a)	24/03/2017	30/09/2016	30/09/2020		N/A	31/03/2024
2016/2017 Series 6 - ROE ^(a)	24/03/2017	01/07/2016	30/06/2019		N/A	31/03/2024
2016/2017 Series 6 - TSR ^(a)	02/11/2016	30/09/2016	30/09/2020		N/A	02/11/2023
2016/2017 Series 6 - ROE ^(a)	02/11/2016	01/07/2016	30/06/2019		N/A	02/11/2023
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)(b)}	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)	01/11/2013	01/07/2013	30/06/2016		100%	01/11/2020
2012/2013 Series 5 - TSR	26/10/2012	30/09/2012	30/09/2015	30/09/2017	56%	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 Plans from 2013/2014 to 2016/2017 are the same; therefore, they are all referred to as Series 6.

(b) The cash ROE portion of EPR Plan 2014/2015 has been tested and is expected to vest in full. Vesting details will be included in the Remuneration Report for the year ended 30 June 2018.

APPENDIX 4. RELATED PARTY INTERESTS

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

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 18 - MOVEMENT IN TOTAL NUMBER OF ORDINARY SHARES HELD

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF DAR	SHARES RECEIVED ON EXERCISE OF EPR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES ^(a)	TOTAL SHARES HELD AT 30 JUNE	SHARES HELD NOMINALLY AT 30 JUNE ^(b)
	Number	Number	Number	Number	Number	Number
2017						
NON-EXECUTIVE DIRECTORS AND EXECUTIVES						
Elizabeth Bryan	32,725	-	-	1,509	34,234	34,234
Duncan Boyle ^(c)	-	-	-	32,679	32,679	32,679
Alison Deans	37,742	-	-	-	37,742	37,742
Hugh Fletcher	82,032	-	-	1,520	83,552	46,991
Jonathan Nicholson	11,468	-	-	23,121	34,589	24,162
Helen Nugent ^(c)	540	-	-	-	540	540
Tom Pockett	32,251	-	-	177	32,428	-
Philip Twyman	15,522	-	-	-	15,522	12,780
Peter Harmer	655,967	51,400	118,421	-	825,788	172,800
Julie Batch	182,907	19,600	18,923	(122,500)	98,930	277
Chris Bertuch	53,880	22,950	21,615	164	98,609	544
Ben Bessell	464	14,600	36,116	(8,400)	42,780	277
Duncan Brain	234,758	38,800	104,550	(210,000)	168,108	-
David Harrington	1,387	20,050	20,900	202	42,539	953
Nicholas Hawkins	220,000	58,350	118,421	(176,771)	220,000	-
Jacki Johnson ^(d)	592,760	42,950	106,250	-	741,960	592,760
Anthony Justice	-	12,750	-	-	12,750	-
Mark Milliner	-	-	-	-	-	-
Craig Olsen	123,403	13,150	13,394	-	149,947	14,800
Clayton Whipp	101,314	27,250	21,000	(23,607)	125,957	688

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF DAR	SHARES RECEIVED ON EXERCISE OF EPR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES ^(a)	TOTAL SHARES HELD AT 30 JUNE	SHARES HELD NOMINALLY AT 30 JUNE ^(b)
	Number	Number	Number	Number	Number	Number
NON-EXECUTIVE DIRECTORS AND EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL^(e)						
Raymond Lim	35,000	-	-	(35,000)	-	-
Claire Rawlins	-	-	-	-	-	-

(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) The opening balance for Jacki Johnson is 366,827 shares higher than the closing balance in the year ended 30 June 2016. This is a result of the overstatement of the number of shares disposed of in the year ended 30 June 2016 by this amount.

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

II. Movements in total number of convertible preference shares

On 1 July 2016, Philip Twyman had an indirect holding of 5,109 convertible preference shares. On 22 December 2016 Mr Twyman's total holding of convertible preference shares were bought back by IAG. No other key management personnel had any interest directly or nominally in convertible preference shares during the financial year (2016-nil).

III. Movements in total number of capital notes held

During the year ended 30 June 2017 Philip Twyman indirectly purchased 5,109 capital notes (2016-nil). No other key management personnel had any interest directly or nominally in capital notes during the financial year (2016-nil).

IV. 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 (2016-nil).

V. Relevant interest of each director and their related parties in listed securities of the IAG Group in accordance with the Corporations Act 2001

TABLE 19 - HOLDINGS OF SHARES, CAPITAL NOTES AND RESET EXCHANGEABLE SECURITIES

	ORDINARY SHARES		CAPITAL NOTES		RESET EXCHANGEABLE SECURITIES	
	Held directly ^(a)	Held indirectly ^(b)	Held directly	Held indirectly	Held directly	Held indirectly
Elizabeth Bryan	-	34,234	-	-	-	-
Duncan Boyle	-	32,679	-	-	-	-
Alison Deans	-	37,742	-	-	-	-
Hugh Fletcher	36,561	46,991	-	-	-	-
Jonathan Nicholson	10,427	24,162	-	-	-	-
Helen Nugent	-	540	-	-	-	-
Tom Pockett	32,428	-	-	-	-	-
Philip Twyman	2,742	12,780	-	5,109	-	-
Peter Harmer	652,988	172,800	-	-	-	-

(a) This represents the relevant interest of each Director in ordinary shares issued by the Group, as notified by the Directors to the ASX in accordance with section 205G of the Corporations Act 2001 until the date the financial report was 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.

APPENDIX 5. 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 STI earned in the reported financial year plus the value of DARs vested during the financial year plus the value of EPRs 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.
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 (DARs)	The one third portion of an Executive's STI that is deferred over a period of two years and awarded in the form of DARs.
Executive Team	The Executives who form part of the Group Leadership Team, comprising: Chief Executive, Australian Consumer Division; Chief Executive, Australian Business Division; Chief Executive, New Zealand; Chief Executive, Asia; Chief Financial Officer; Chief Operating Officer; Chief Risk Officer; Chief Customer Officer; Group Executive, Office of the CEO; Group General Counsel and Company Secretary; and Group Executive, People, Performance and Reputation.
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 Balanced Scorecard	The Group Balanced Scorecard sets out the objectives that have to be achieved to meet key strategic priorities of the organisation. The Group Balance Scorecard uses goals set against financial and non-financial objectives. Achievement against these objectives is measured and this informs the Board's determination of STI outcomes.
Group CEO	IAG's Managing Director and Chief Executive Officer.
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)	Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.
Long term incentive (LTI)/Executive Performance Rights (EPRs)	A grant of rights in the form of EPRs that are exercisable for IAG ordinary shares or cash as determined by the Board. Vesting occurs between three and four years after the grant date if performance hurdles are achieved.
Malus	The Board has the ability to reduce the value of deferred remuneration before it has vested, including down to zero.
Non-Executive Director Award Right (NAR)	The NARs Plan provides directors with the opportunity to build their shareholding in IAG and is provided in the form of NARs. Participation in the plan is voluntary.
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 Executives, one third of STI is deferred for a period of two years and two thirds is paid in cash in September following the end of the performance year.
Total shareholder return (TSR)	TSR combines share price movements and dividends paid to show total return to shareholders. IAG uses relative TSR performance against other companies in the peer group to calculate one half of the LTI outcome.
WACC	The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets.

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 and 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 23rd day of August 2017 in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Harmer', written in a cursive style.

Peter Harmer
Director