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 2012 and the auditor's report thereon.

The following terminology is used throughout the financial report:
- IAG, Parent or Company - Insurance Australia Group Limited; and
- Group or Consolidated - the Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

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

CHAIRMAN
BRIAN (BM) SCHWARTZ AM
FCA, FAICD, age 59 - Chairman and Independent non-executive director
INSURANCE INDUSTRY EXPERIENCE
Brian Schwartz was appointed a director of IAG in January 2005 and became chairman in August 2010. He is a member and former chairman of the IAG Nomination, Remuneration & Sustainability Committee and is also chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd.

OTHER BUSINESS AND MARKET EXPERIENCE
Brian is a non-executive director of Brambles Limited, the deputy chairman of Westfield Group Limited and the deputy chairman of the board of Football Federation Australia Limited.

Brian was the chief executive of Investec Bank (Australia) Ltd from 2005 to 2009. Previously, he was with Ernst & Young Australia from 1979 to 2004 becoming its chief executive in 1998. He was a member of Ernst & Young's global board and managing partner of the Oceania area responsible for the firm's operations in Australia, New Zealand, Indonesia, the Philippines, Vietnam and Fiji.

Brian was appointed a Member of the Order of Australia in 2004 for his services to business and the community. He was previously a member of the Federal Government's Australian Multicultural Advisory Council and in 2001 he was named Leading CEO for the Advancement of Women by the Equal Opportunity for Women in the Workplace Agency.

Directorships of other listed companies held in past three years:
- Brambles Limited since 13 March 2009;
- Westfield Group, including Westfield Management Limited (which acts as the responsible entity of Carindale Property Trust), since 6 May 2009; and
- IAG Finance (New Zealand) Limited (a part of the Group), since 26 August 2010.

MANAGING DIRECTOR
MICHAEL (MJ) WILKINS
BCom, MBA, DLI, FCA, FAICD, age 55 - Managing Director and Chief Executive Officer
INSURANCE INDUSTRY EXPERIENCE
Michael Wilkins was appointed as Managing Director and Chief Executive Officer in May 2008 after holding the position of chief operating officer and director of IAG since November 2007.

Michael has more than 25 years experience in the insurance and financial services sector and he is a member of the Australian Government's Financial Sector Advisory Council.

Michael was formerly the managing director of Promina Group Limited (from 1999 to 2007), and managing director of Tyndall Australia Limited (from 1994 to 1999). He is a former director and president of the Insurance Council of Australia and a former director of the Investment and Financial Services Association (now the Financial Services Council).

OTHER BUSINESS AND MARKET EXPERIENCE
Michael is currently a non-executive director of Maple-Brown Abbott Limited and a former non-executive director of Alinta Limited.

Directorships of other listed companies held in past three years:
- IAG Finance (New Zealand) Limited (a part of the Group), since 28 May 2008.

OTHER DIRECTORS

YASMIN (YA) ALLEN

BCom, FAICD, age 48 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Yasmin Allen was appointed as a director of IAG in November 2004. She is chairman of the IAG Nomination, Remuneration & Sustainability Committee and a member (and former chairman) of the IAG Audit, Risk Management & Compliance Committee. Yasmin served six years on the board of Export Finance and Insurance Corporation.

OTHER BUSINESS AND MARKET EXPERIENCE

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Cochlear Limited and chairman of its Audit Committee, chairman of Macquarie Specialised Asset Management, a National Director of the Australian Institute of Company Directors and a member of the Salvation Army advisory board. Previous non-executive director roles include Export Finance and Insurance Corporation and Film Australia.

Yasmin was formerly a vice president at Deutsche Bank AG, a director at ANZ Investment Bank in Australia and an associate director at James Capel UK Ltd (HSBC Group).

Directorships of other listed companies held in past three years:

- Cochlear Limited since 2 August 2010.

PETER (PH) BUSH

BA, FAMI, age 60 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Peter Bush was appointed as a director of IAG in December 2010. He is a member of the IAG Audit, Risk Management & Compliance Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Peter has extensive experience in marketing, brands and consumer behaviour gained through a career spanning more than 30 years in the fast moving consumer goods and retail industries. He was McDonald's Australia Limited's managing director & CEO and President for the Pacific, Middle East and Africa (2005-2010) and chief operating officer (2002-2005).

In several of Peter's roles he was responsible for Asian operations and he has direct experience in developing business in Indonesia, Japan and China. He previously held senior roles with Arnott's Biscuits Limited, Pioneer International Limited (Ampol/Caltex), Samuel Taylor (Reckitt & Coleman plc) and Johnson & Johnson Australia, and was chief executive officer of AGB McNair and Schwarzkopf Australia & New Zealand.

Peter is chairman of Pacific Brands Limited and Nine Entertainment Holdings Pty Ltd, and previously served on the boards of McDonald's Australia Limited, Lion Nathan Limited, Miranda Wines Pty Limited (now McGuigan Wines) and Frucor Beverages Group Limited (now Danone).

Directorships of other listed companies held in past three years:

- Pacific Brands Limited since 3 August 2010.

PHILLIP (PM) COLEBATCH

BE (Hons), BSc, DBA, SM, age 67 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Phillip Colebatch was appointed as a director of IAG in January 2007. He is a member of the IAG Nomination, Remuneration & Sustainability Committee.

Phillip has served on the group executive boards of Swiss Re and Credit Suisse Group.

OTHER BUSINESS AND MARKET EXPERIENCE

Prior to joining Swiss Re as division head, capital management and advisory, Phillip spent 17 years with the Credit Suisse Group where, in addition to his executive board position, he served as chief financial officer of Credit Suisse Group and then chief executive officer of Credit Suisse Asset Management. He has also served as head of European banking activities for Credit Suisse First Boston. Phillip began his career with Citicorp in New York and has held a number of senior investment banking roles at Citicorp in Asia and the UK, including seven years with a Citibank subsidiary in Hong Kong with responsibility for investment banking across the Asia Pacific region.

Phillip is a non-executive director of Lend Lease Corporation Limited and Man Group plc. He is also a member of the Boards of Trustees of the LGT Group Foundation and the Prince of Liechtenstein Foundation.

Directorships of other listed companies held in past three years:

- Lend Lease Corporation Limited since 1 December 2005; and
- Man Group plc since 1 September 2007.

HUGH (HA) FLETCHER

BSc/BCom, MCom (Hons), MBA, age 64 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Hugh Fletcher was appointed as a director of IAG in September 2007 and as a director of IAG New Zealand Limited in July 2003. He is a member of the IAG Audit, Risk Management & Compliance 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 also non-executive director of Fletcher Building Limited, Rubicon Limited and Vector Limited and a trustee of The University of Auckland Foundation.

Hugh was formerly chief executive officer of Fletcher Challenge Limited – a New Zealand headquartered corporation with assets in the global building, energy, forestry and paper industries. He retired from an executive position in December 1997 after 28 years as an executive, 11 of which he served as chief executive.

Hugh is a former Deputy Chairman of the Reserve Bank of New Zealand and is a former member of the Asia Pacific Advisory Committee of the New York Stock Exchange 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 past three years:

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

ANNA (A) HYNES

BSc (Hons), MBA, age 53 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Anna Hynes was appointed as a director of IAG in September 2007. She is a member of the IAG Nomination, Remuneration & Sustainability Committee and was formerly a member of the IAG Audit, Risk Management & Compliance Committee. Anna was formerly a non-executive director of Promina Group Limited.

OTHER BUSINESS AND MARKET EXPERIENCE

Anna has over 20 years experience in general management and marketing roles in financial services and consumer products companies. She has worked in the UK, Asia and the USA, as well as Australia and New Zealand.

Anna spent most of her executive career at American Express where she held a number of senior positions, most recently country head, New Zealand. Other roles at American Express included two years as Vice President - Indonesia, Malaysia and Pakistan, where she managed these three emerging markets and developed strategies to improve performance and growth in each market.

Anna was also an adjunct professor and member of the Executive Council at the University of Technology Business School, Sydney.

Anna was formerly a non-executive director of Country Road Limited.

Directorships of other listed companies held in past three years:

- None.

PHILIP (PJ) TWYMAN

BSc, MBA, FAICD, age 68 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Philip Twyman was appointed as a director of IAG in July 2008. He is chairman of the IAG Audit, Risk Management & Compliance Committee.

Philip was formerly group executive director of Aviva plc, one of the world's largest insurance groups, based in London. He has also been chairman of Morley Fund Management and chief financial officer of General Accident plc, Aviva plc and AMP Group.

While at Aviva plc and its predecessor groups between 1996 and 2004, Philip had executive responsibility for the Group's insurance operations in Asia, Australia, Europe and North America. Over the last 20 years he has also been responsible for starting and nurturing new insurance businesses in China, Indonesia and Hong Kong. Overall, Philip has had over 20 years of both board and executive level general insurance experience.

Philip is on the advisory board of Swiss Re (Australia). He was formerly an independent non-executive director of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd between April 2007 and July 2008.

OTHER BUSINESS AND MARKET EXPERIENCE

Philip is also on the board of Perpetual Limited, Medibank Private Limited and Tokio Marine Management (Australasia) Pty Ltd.

Directorships of other listed companies held in past three years:

- Perpetual Limited since November 2004.

SECRETARY OF INSURANCE AUSTRALIA GROUP LIMITED

CHRIS (CJ) BERTUCH

BEc, LLB, LLM

Chris Bertuch was appointed company secretary on 11 May 2011. Prior to joining IAG, he held the position of Group General Counsel & Company Secretary at CSR Limited. Chris joined CSR as a corporate lawyer in 1993 and prior to that was a partner in the law firm Gadens Lawyers in Sydney. He brings to IAG more than 25 years experience in corporate, commercial and trade practices law and dispute resolution. Chris has also completed the Advanced Management Program at Harvard Business School.

MEETINGS OF DIRECTORS

The number of meetings each director was eligible to attend and actually attended during the financial year is summarised as follows.

DIRECTOR	BOARD OF DIRECTORS		IAG NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE		IAG AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE		IAG SUB COMMITTEE	
Total number of meetings held		8		4		5		2
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
BM Schwartz	**8**	**8**	**4**	**4**	**-**	**-**	**2**	**2**
YA Allen	**8**	**8**	**4**	**4**	**5**	**5**	**-**	**-**
PH Bush	**8**	**6**	**-**	**-**	**5**	**5**	**-**	**-**
PM Colebatch	**8**	**6**	**4**	**2**	**-**	**-**	**-**	**-**
HA Fletcher	**8**	**8**	**-**	**-**	**5**	**5**	**1**	**1**
A Hynes	**8**	**8**	**4**	**4**	**-**	**-**	**-**	**-**
PJ Twyman	**8**	**8**	**-**	**-**	**5**	**5**	**-**	**-**
MJ Wilkins	**8**	**8**	**-**	**-**	**-**	**-**	**2**	**2**

PRINCIPAL ACTIVITIES

The principal continuing activities of the Group are the underwriting of general insurance and related corporate services and investing activities.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

The Group's profit after tax for the financial year was $265 million (2011-$338 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the equity holders of the Company was $207 million (2011-$250 million). The profit after tax included a $297 million impairment charge in respect of intangible assets and goodwill related to the United Kingdom business. This reflects the continuation of challenging economic and industry conditions in this market.

For the financial year to 30 June 2012, the Group has announced:

- gross written premium (GWP) growth of 11.7%, to nearly $9.0 billion; and
- an insurance margin of 10.6%.

The GWP growth reflected strong growth in Australia and New Zealand, sourced from rate increases as well as volume growth and acquisitions, including AMI Insurance Limited (AMI) in New Zealand which was completed in April 2012.

The improved insurance result reflected the strength of the underlying business performance and was achieved despite:

- significantly higher reinsurance costs;
- natural peril claim costs above allowances; and
- unfavourable investment market trends, including an adverse impact from credit spreads.

A. AUSTRALIA DIRECT

- The Group's largest business reported GWP growth of 10.5%, reflecting the combination of rate increases, to recover increased reinsurance costs and natural peril allowances coupled with volume growth.
- Australia Direct produced a strong headline margin of 14.3% (2011-19.5%). The lower reported margin reflects a materially higher net natural peril claims experience, higher reinsurance costs, lower reserve releases and an adverse credit spread impact.

B. AUSTRALIA INTERMEDIATED (CGU)

- Reported GWP increased by 12.0% to $2,759 million. This was driven by a blend of acquired business, notably the general insurance business of HBF and rate increases.
- The reported insurance margin of 10.8% (2011-6.5%) has benefited from considerably better net natural peril claims experience, partially offset by lower reserve releases and an adverse credit spread impact.

C. NEW ZEALAND

- New Zealand reported strong GWP growth of over 26%, driven by significant rate increases to recover substantially higher reinsurance costs. GWP also includes an initial three-month contribution from AMI, acquired in April 2012.
- New Zealand produced an insurance margin of 10.4% (2011-0.4%). This is a material improvement over the earthquake-impacted result for the prior year, and includes the continued earn through of rate increases and a strong underlying claims performance.

D. UNITED KINGDOM

- Reported GWP for the financial year declined by 9% in Australian dollar terms (4% in local currency) as remedial actions led to volume loss, partially offset by rate increases.
- The division reported a reduced insurance loss of $13 million (2011- $181 million insurance loss). The significant improvement reflects benefits from the extensive program of remedial actions. A strategic review of the business has been announced, with an outcome expected before 31 December 2012.

E. ASIA

- The Asia division reported an overall loss of $62 million predominantly owing to Thailand's worst flooding in many decades. The underlying performance of established businesses in Thailand and Malaysia was strong.
- The Group made considerable progress in expanding its Asian footprint in the 2012 financial year, and is on track to reach its goal of Asia representing 10% of Group GWP by 2016, on a proportional basis.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2012 were $25,132 million compared to $23,029 million at 30 June 2011. The increase was mainly attributable to an:

- increase in cash and investments of $1,520 million due to capital gains, proceeds from the New Zealand subordinated bond issue and positive cash flows in Australia; and
- increase in premium related assets due to growth in gross written premiums. These included an increase in premium receivables of $421 million.

The total liabilities of the Group as at 30 June 2012 were $20,608 million compared to $18,449 million at 30 June 2011. The increase was mainly attributable to an:

- increase in gross outstanding claims of $820 million primarily attributable to lower discount rates;
- increased premium related liabilities due to growth in gross written premiums. These include a $587 million increase in unearned premium and a $120 million increase in related trade payables; and
- increase in interest bearing liabilities of $282 million mainly following the New Zealand subordinated bond issue.

The decrease in IAG's equity from $4,580 million at 30 June 2011 to $4,524 million at 30 June 2012 largely reflects:

- net comprehensive income attributable to equity holders of $170 million (after the $297 million United Kingdom writedown); and offset by
- 2011 final dividend and 2012 interim dividend payments totalling $250 million.

B. CASH FROM OPERATIONS

The net cash inflow from operating activities for the financial year ended 30 June 2012 was $1,514 million compared to $620 million for the prior period. The increase is mainly attributable to an:

- increase in gross written premium receipts of $672 million in the Australian and New Zealand businesses;
- increase in reinsurance and other recoveries of $632 million; and offset by
- increase in claims payments of $533 million.

C. CAPITAL MANAGEMENT

The Group's capital position, as reflected in the minimum capital requirement (MCR) multiple, was 1.74 times as at 30 June 2012. Details of capital management are set out in note 35.

Further information on the Group's result and review of operations can be found in the 30 June 2012 Investor Report. This is available in the results and reports area of IAG's website, www.iag.com.au.

LIKELY DEVELOPMENTS

Insurance and investment operations are, by their nature, volatile due to the exposure to natural perils and industry cycles and thus profit predictions are difficult. Nonetheless, the Group is confident of delivering further improvement in operating performance in 2013. Its guidance for the year ending 30 June 2013 is:

- GWP growth of 9%-11%; and
- an insurance margin in the range of 11%-13%.

This assumes:

- net losses from natural perils in line with budgeted allowances of $640 million;
- net prior period reserve releases equivalent to 1-2% of net earned premium; and
- no material change in foreign exchange rates or investment markets.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company are set out in note 10.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Group has recently announced:

- A proposal by the Group's 49% owned Malaysian associate, AmG Insurance Berhad (AmG), to acquire Kurnia Insurans (Malaysia) Berhad. The transaction is expected to complete in the first half of financial year 2013.
- A strategic review of the UK business. The Group anticipates announcing an outcome before the end of the first half of financial year 2013.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year is set out in note 39. This includes:

- the IAG Board determined to pay a final dividend.

OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITORS

The following person is currently an officer of the Group and was a partner of KPMG, the Company's auditor, at a time when KPMG was the auditor of the Company:

- NB Hawkins who has been Chief Financial Officer of the Group since 29 August 2008 (left KPMG in October 2001).

NON AUDIT SERVICES

During the financial year, KPMG has performed certain other services for the IAG 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 Audit, Risk Management & Compliance Committee (ARMCC), 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 Institute of Chartered Accountants in Australia 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 amount to approximately $1.3 million of total audit fees (refer to note 37 to the financial statements for further details on 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 37 and forms part of the directors' report for the year ended 30 June 2012.

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 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 or Company or of a subsidiary of the Company; or
- a person having the capacity to affect significantly the financial standing of the Company or of a subsidiary of the Company.

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

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

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

ENVIRONMENTAL REGULATION

The Group's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the Group's operations. The board of directors believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

The Australian government has released its Clean Energy Future – the Australian Government's Climate Change Plan which includes the introduction of a carbon price mechanism. IAG will not be directly captured by this carbon price mechanism however, there may be indirect impacts to the business through purchase of electricity and other goods procured from companies that will be directly captured.

REMUNERATION REPORT

LETTER FROM THE NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE CHAIR

IAG is pleased to present its remuneration report for the year ended 30 June 2012.

The format and content of the remuneration report are reviewed each year with a view to presenting information consistently, concisely and in a form that complies with the Corporations Act 2001. In line with stakeholder feedback, this year the Group has continued to provide voluntary disclosure of actual remuneration received by the Group's Managing Director and Chief Executive Officer (Group CEO) and the executive team. Actual remuneration is provided in addition to the statutory reporting of remuneration to increase transparency of what an executive actually received during the year.

IAG has delivered an improved performance for the year ended 30 June 2012 meeting both gross written premium (GWP) growth and insurance margin guidance. In line with this performance, the short term incentives (STI) awarded to the Group CEO and the executive team are, on average, higher than last year. Each executive's STI outcome is closely linked to the financial performance of the Group, as well as to the execution of his or her division's strategic goals. More details on STI outcomes for the year ended 30 June 2012 are provided on page 24.

In addition the Group CEO and the executive team were rewarded under IAG's long term incentive (LTI). IAG's performance against its peer group, top 50 Industrials within the S&P/ASX100 Index, resulted in the total shareholders' return (TSR) performance hurdle being met for executive performance rights (EPR) granted in the year ended 30 June 2009. This resulted in 66% of the rights linked to the TSR hurdle vesting. The portion of EPR granted in the same period subject to the return on equity (ROE) hurdle did not result in any vesting as ROE did not meet the required performance level. The EPR granted under the ROE portion will lapse.

The remuneration structure for IAG's Group CEO and the executive team has not changed over the last year and is summarised below.

REMUNERATION COMPONENT*			STRATEGIC PURPOSE
FIXED REMUNERATION	Cash	■ Base salary and superannuation	■ Attract and retain high quality people
AT RISK REMUNERATION	Cash STI	■ 2/3 of STI outcome paid as cash in October	■ Align reward to shareholder interests ■ Strike a balance between short and long term results and reward for exceptional performance ■ Retain high quality people
	Deferred STI	■ 1/3 of STI outcome is deferred over a period of two years, subject to ongoing employment conditions ■ Provided as grant of rights in the form of deferred award rights (DAR) ■ The actual value of shares will depend on the future share price ■ IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure an appropriate reward outcome	
	LTI	■ Provided as grant of rights in the form of EPR ■ 3-5 year period ■ Subject to performance hurdles of relative total shareholder return and return on equity being achieved ■ IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure an appropriate reward outcome	■ Align reward to shareholder interests ■ Align remuneration with longer term financial performance ■ Retain high quality people

* A detailed glossary of terms is provided at the end of the remuneration report.

The IAG Board is confident that IAG's remuneration policies are in line with governance requirements and continue to support the Group's financial and strategic goals and to attract the right people, which ultimately benefit shareholders, customers, employees and the community. On behalf of the IAG Board, I invite you to read the full report and thank you for your continued interest.

Yasmin Allen
Nomination, Remuneration & Sustainability Committee Chair

GUIDE TO THE REMUNERATION REPORT

A. 2012 SNAPSHOT

I. Actual remuneration earned by executives

The actual remuneration presented below provides the remuneration that all current executives received during the financial years ended 30 June 2011 and 2012. This voluntary disclosure includes fixed pay, other benefits and leave accruals, cash STI paid as well as any deferred STI or LTI that have vested in the relevant financial years. For remuneration details provided in accordance with Accounting Standards refer to Category C in this report.

NAME	POSITION	FINANCIAL YEAR	FIXED PAY[(a)]	OTHER BENEFITS AND LEAVE ACCRUALS[(b)]	CASH STI	DEFERRED STI VESTED	LTI VESTED	TOTAL ACTUAL REMUNERATION RECEIVED[(c)]
Table note			A	B	C	D	E	F
			$000	$000	$000	$000	$000	$000
EXECUTIVES								
MJ Wilkins	Managing Director and Chief Executive Officer	**2012**	**1,992**	**230**	**1,567**	**388**	**746**	**4,923**
		2011	1,915	119	1,104	327	295	3,760
JP Breheny	Chief Executive Officer, Asia	**2012**	**877**	**310**	**587**	**185**	**296**	**2,255**
		2011	845	18	429	174	116	1,582
A Cornish	Chief Executive Officer, Australia Direct	**2012**	**990**	**75**	**600**	**154**	**249**	**2,068**
		2011	936	42	610	132	-	1,720
IR Foy	Chief Executive Officer, UK	**2012**	**698**	**371**	**287**	**105**	**200**	**1,661**
		2011	666	575	292	63	14	1,610
P Harmer	Chief Executive Officer, CGU, commenced on 8 November 2010	**2012**	**932**	**62**	**504**	**-**	**-**	**1,498**
		2011	591	23	275	-	-	889
NB Hawkins	Chief Financial Officer	**2012**	**956**	**93**	**568**	**160**	**305**	**2,082**
		2011	910	52	460	151	113	1,686
JS Johnson	Chief Executive Officer, New Zealand	**2012**	**863**	**124**	**505**	**172**	**296**	**1,960**
		2011	808	23	337	180	117	1,465
LC Murphy	Chief Strategy Officer	**2012**	**862**	**58**	**512**	**139**	**251**	**1,822**
		2011	801	36	404	110	41	1,392

a. FOOTNOTES

(a) Fixed pay (base salary and superannuation) included an average pay increase of 4.1% effective September 2011.

(b) Changes in other benefits and leave accruals from the prior year were mainly due to:

- annual and long service leave accruals increased for all executives (except for Mr Foy who is not entitled to carry forward accrued leave based on the UK legislation); and
- for those executives located overseas, other benefits in the year ended 30 June 2012 including:
  - Mr Breheny, relocation costs and accommodation of $252,000 relating to his relocation to Singapore;
  - Mr Foy, retention payments of $335,000 (£218,000) and other recurring allowances and benefits of $36,000; and
  - Ms Johnson, accommodation allowances and other benefits of $45,000.

(c) For those executives who ceased as a KMP during the year ended 30 June 2011, K Armstrong (former acting Chief Executive Officer, New Zealand), N Utley (former Managing Director, UK) and DG West (former Chief Executive Officer, CGU), their total 2011 remuneration was $100,000, $1,641,000 and $806,000, respectively.

b. TABLE NOTE

Detailed definitions of the terminology used in this remuneration report are provided in Category F – Glossary of terms.

A, B Total of columns A and B in the actual remuneration table above equals to the total of columns noted (1), (3), (4) and (5) in the statutory remuneration table in Category C.

C Represents 2/3 of the STI for the financial year from 1 July to 30 June. It is the same as the cash STI in column (2) in the statutory remuneration table in Category C.

D Deferred STI that vested in the relevant financial year. Details are provided in the table on page 25 in Category B. The weighted average share price used to value the deferred STI at vesting date is $3.37 (2011-$3.40). Column (6) in the statutory remuneration table in Category C represents the accounting value for all grants.

E LTI that vested in the relevant financial year. Details are provided in the table of LTI on page 28 in Category B. The weighted average share price at vesting date is $3.01 (2011-$3.68). Column (7) in the statutory remuneration table in Category C represents the accounting value for all grants.

The table below illustrates the potential fixed and at risk remuneration the Group CEO and the executive team (on average) can earn under the current remuneration framework compared to what they actually received during the year. This demonstrates alignment between at risk remuneration and the financial performance of the Group. The Group CEO and the executive team will only receive high reward outcomes if performance hurdles are met. Calculations are based on remuneration for current executives at 30 June 2011 and 2012 who were employed for the full financial year. Actual at risk remuneration is calculated according to the actual remuneration table above and expressed as a percentage of the total potential remuneration.

Remuneration component	What it contains	GROUP CEO REMUNERATION Potential[(a)]	Actual 2012	Actual 2011	EXECUTIVE TEAM REMUNERATION Potential[(a)]	Actual[(b)] 2012	Actual[(b)] 2011
Fixed pay[(c)(d)]	Base salary and superannuation	25.0 %	**25.0 %**	25.0 %	29.0 %	**29.0 %**	29.0 %
At risk pay	STI - cash	25.0 %	**19.5 %**	14.3 %	23.2 %	**16.6 %**	14.4 %
	STI - deferred	12.5 %	4.8 %	4.2 %	11.6 %	4.3 %	4.6 %
	LTI	37.5 %	9.3 %	3.8 %	36.2 %	7.4 %	2.3 %
Total		100.0 %	**58.6 %**	47.3 %	100.0 %	**57.3 %**	50.3 %

(a) Potential fixed and at risk remuneration is based on current remuneration at 30 June.

(b) Executive data for 2011 excludes P Harmer who commenced on 8 November 2010.

(c) Fixed pay includes base salary and superannuation.

(d) Fixed pay excludes other values such as long service leave accruals, relocation and accommodation, retention payments and other recurring allowances and benefits.

The actual remuneration information provided in this snapshot section is voluntary and is not in accordance with current Accounting Standards requirements. The actual remuneration values in the table on the previous page are based on information disclosed in the audited sections of the remuneration report.

REMUNERATION REPORT - AUDITED

B. EXECUTIVE REMUNERATION STRUCTURE AND GOVERNANCE

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.

I. Governance

The responsibility of the IAG Board is to ensure that the remuneration framework is aligned to the short and long term interests of IAG and its shareholders. The Nomination, Remuneration & Sustainability Committee (NRSC) makes recommendations to the IAG Board regarding group remuneration policy including executive remuneration. The IAG Board independently considers these recommendations before making decisions that affect the remuneration of the executives.

a. ROLE OF NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE

The NRSC is the IAG Board committee which oversees IAG's remuneration practices and makes decisions about executive remuneration.

The NRSC endeavours to ensure that remuneration policies balance IAG's performance objectives and remain in step with community and shareholder expectations. While stability in the remuneration structure is important, where modifications can be made to better align stakeholder interests and drive performance, the NRSC actively considers these and makes recommendations to the IAG Board.

The Group CEO, corporate office executives and human resources executives regularly attend NRSC meetings and assist the committee in its deliberations. However, none is present when their own remuneration is discussed. The business CEOs and respective heads of human resources present to the NRSC to provide it with updates on the human resources strategy and initiatives in their divisions. This provides an open channel of communication between the operating divisions and the NRSC.

The chair of the NRSC and the IAG Board meet regularly to provide updates on remuneration related issues and to gain approval.

A copy of the NRSC's charter is available at www.iag.com.au/about/governance.

b. INVOLVEMENT OF REMUNERATION CONSULTANTS

The NRSC directly engages and considers market remuneration data from leading remuneration consultants as required. The data provided by remuneration consultants is used as a guide and all remuneration decisions for the Group CEO and the executive team are made by the IAG Board.

II. Executive remuneration structure

IAG's executive remuneration structure is designed to align total remuneration with company and individual performance. It recognises that executives have a significant influence on achieving and exceeding the Group's financial results and therefore encourages sustained exceptional performance.

Total remuneration outcomes for target performance are positioned at the middle of the market. The appropriate market is determined considering organisation size, industry and geographical location. A high total remuneration outcome is considered by the IAG Board in cases of superior performance aligned with long term financial performance.

Guiding principles

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

- motivate employees to achieve superior and sustainable performance and discourage underperformance;
- align remuneration with the interest of IAG's shareholders by actively focusing on short to long term goals;
- remain market competitive to attract and retain high quality people;
- be clearly communicated and valued; and
- encourage constructive behaviours and prudent risk taking that support long term financial soundness.

Key initiatives in executive remuneration

In response to regulatory changes and shareholder feedback, the NRSC undertook the following initiatives during the year ended 30 June 2012:

- actively monitored compliance against Australian Prudential Regulation Authority (APRA) standards covering the governance of remuneration;
- an audit review of the STI framework and outcomes was completed. The result of the review was positive and also found the framework to be aligned to APRA's requirements. Where areas of improvement were identified, management action has been taken to further strengthen the framework; and
- in August 2010, the NRSC approved changes to the terms of the DAR and EPR Plans to provide the NRSC with the discretion to adjust remuneration outcomes in certain circumstances. An annual process for evaluating whether to adjust unvested DAR and EPR has been completed. No adjustment of DAR and EPR is required for the period under review.

Remuneration components
The remuneration components for the executive team are explained below.

a. FIXED REMUNERATION
Fixed remuneration is defined as base salary (including annual leave) plus superannuation. Base salary includes amounts paid in cash plus the portion of the company's superannuation contribution that is paid as cash instead of paying into the superannuation funds and salary sacrifice items such as cars (including the 30% tax rebate on car expenses) and parking. Executives can determine the mix of base salary to be paid in cash, salary sacrifice items and superannuation in line with legislative requirements. Fixed remuneration is set towards the middle of the market of comparable roles in companies of a similar size to that of IAG, and is reviewed each year based on independent remuneration data. For Australian based executives, market positioning is determined by reference to a number of peer groups, including the largest 50 companies in the S&P/ASX 100 Index and companies that are of similar size to that of IAG. Relevant local market peer groups are used for executives located overseas.

Fixed remuneration for the year ended 30 June 2012
The average performance based fixed remuneration increase for the executive team in respect of the year ended 30 June 2012 was 4.1%. In August 2012, the IAG Board approved an average 2.0% increase in fixed remuneration for the executive team effective September 2012.

b. AT RISK REMUNERATION
Whilst the IAG Board recognises that executive remuneration is guided by regulation, market forces and benchmarks, it strongly believes that the fundamental driver for executive remuneration should be long term financial performance that generates value for IAG shareholders. This objective is mainly achieved through the at risk remuneration components consisting of STI and LTI, without encouraging excessive risk taking. To ensure that executives remain focused on long term outcomes the following apply:

- no more than 50% of the STI is based on financial outcomes;
- 1/3 of the STI is deferred over a period of two years;
- the vesting of the LTI does not occur before three years; and
- the IAG Board retains the discretion to adjust any unpaid or unvested performance pay (such as cash STI, deferred STI and LTI) downwards if it decides it is prudent to do so.

This combination ensures that the at risk remuneration reflects the overall performance of the Group.

i. Short term incentive
Short term incentive (STI) refers to the at risk remuneration designed to motivate and reward for performance typically in that financial year. The performance for the achievement of STI is measured using a balanced scorecard based on goals set against financial and non financial measures. Financial performance accounts for not more than 50% of the STI outcome to ensure compliance with IAG's governance standards. The remaining 50% or more of the incentive depends on the achievement of non financial objectives to secure the long term operation of IAG and its divisions. For the Group CEO and the executive team, 2/3 of STI is paid as cash, with the remaining 1/3 of STI deferred in the form of DAR over a period of two years.

The amount of STI paid to the executive team is recommended by the NRSC in consultation with the Group CEO based on their balanced scorecard performance, and approved by the IAG Board.

The following table details the weighting of different performance measures for the total STI of the Group CEO and the executive team.

ROLE	FINANCIAL MEASURES		NON FINANCIAL MEASURES
	Group financial targets	Division or business financial targets	
Group CEO	50 %	- %	50 %
Business CEOs	10 %	40 %	50 %
Corporate office executives	40 %	10 %	50 %

The table below provides some examples of financial and non financial measures used in the balanced scorecards.

MEASURES	EXAMPLES OF TARGETS
FINANCIAL	
Group financial	ROE, secure position
Division or business financial	Return on risk based capital, gross written premium
NON FINANCIAL	
Group non financial	Efficiency and effectiveness of processes, creation of a high performing organisation, alignment of customer experience with value proposition, effective governance frameworks
Division or business non financial	Efficiency and effectiveness of processes, insurer of choice for customers, attraction and retention of people with the right values and capabilities, effective governance frameworks

STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2012

Actual STI payments made to the Group CEO and the executive team for the year ended 30 June 2012 reflect the degree of achievement against the balanced scorecard measures. The table below provides the details for the STI for the Group CEO and the executive team.

IAG has delivered an improved performance for the year ended 30 June 2012, delivering on both GWP growth and insurance margin guidance. In line with improved performance, the STI awarded to the Group CEO and the executive team are, on average, higher than last year. An individual executive's STI outcome is linked strongly to the financial performance of the Group as well as to the execution of his or her division's strategic goals during the year.

In addition to reflecting the overall improvement in the Group's performance, the STI for individual members of the executive team reflects their success in delivering results against their divisional strategies.

	MAXIMUM STI OPPORTUNITY	ACTUAL STI OUTCOME		CASH STI OUTCOME (2/3 OF OUTCOME)	DEFERRED STI OUTCOME (1/3 OF OUTCOME)
	(% of fixed pay)	(% of maximum)	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
MJ Wilkins	150	78	117	78	39
JP Breheny	120	83	100	67	33
A Cornish	120	75	90	60	30
IR Foy	120	51	61	41	20
P Harmer	120	67	80	53	27
NB Hawkins	120	74	89	59	30
JS Johnson	120	73	88	59	29
LC Murphy	120	74	89	59	30

CASH PORTION OF STI OUTCOME FOR THE YEAR ENDED 30 JUNE 2012

2/3 of the STI is paid as cash in October 2012. The dollar values are contained in remuneration details in Category C.

DEFERRED PORTION OF STI OUTCOME FOR THE YEAR ENDED 30 JUNE 2012

1/3 of the STI outcome is paid in the form of DAR and known as deferred STI. As DAR will not be allocated until October 2012, the value of this portion is not included in the 2012 remuneration report. This value will be included in the disclosure for the year ending 30 June 2013.

DEFERRED STI

Deferred STI is issued in the form of rights over IAG ordinary shares held by a trustee. These rights are referred to as DAR. They are issued to the Group CEO and the executive team during the financial year for nil consideration, to the value of their deferred STI amount. The Group CEO and the executive team who participate in this plan become eligible to receive one IAG ordinary share per DAR by paying the exercise price of $1 per tranche of DAR exercised, subject to continuing employment with the Group for a period as determined by the IAG Board. When an executive ceases employment in special circumstances, such as redundancy, any unvested rights will vest on cessation of employment, with board discretion.

Details of the DAR granted, vested and exercised during the financial year are set out below. The DAR granted during the year reflects the deferred portion of the STI outcome for the year ended 30 June 2011. Note 29 to the financial statements sets out further details of the DAR Plan.