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.

<table>
<tr><th colspan="3">REMUNERATION COMPONENT*</th><th>STRATEGIC PURPOSE</th></tr>
<tr><td>FIXED REMUNERATION</td><td>Cash</td><td>▪ Base salary and superannuation</td><td>▪ Attract and retain high quality people</td></tr>
<tr><td rowspan="3">AT RISK REMUNERATION</td><td>Cash STI</td><td>▪ 2/3 of STI outcome paid as cash in October</td><td rowspan="2">▪ Align reward to shareholder interests
▪ Strike a balance between short and long term results and reward for exceptional performance
▪ Retain high quality people</td></tr>
<tr><td>Deferred STI</td><td>▪ 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</td></tr>
<tr><td>LTI</td><td>▪ 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</td><td>▪ Align reward to shareholder interests
▪ Align remuneration with longer term financial performance
▪ Retain high quality people</td></tr>
</table>

* 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

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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.

		GROUP CEO REMUNERATION			EXECUTIVE TEAM REMUNERATION		
Remuneration component	What it contains	Potential[a]	Actual		Potential[a]	Actual[b]	
			2012	2011		**2012**	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.

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.