

# 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 2009 and the auditor's report thereon.

The following terminology is used throughout the financial report:

- IAG, Parent or Company—Insurance Australia Group Limited; and
- IAG Group, 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**

#### **JAMES (JA) STRONG**

**AO, age 65—Independent non-executive director**

##### INSURANCE INDUSTRY EXPERIENCE

James Strong was appointed as Chairman of IAG in August 2001. He is a member of the IAG Nomination, Remuneration & Sustainability Committee. James is also Chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd.

##### OTHER BUSINESS EXPERIENCE

James is also Chairman of Woolworths Limited and the Australia Council for the Arts. He is a director of Qantas Airways Limited and the Australian Grand Prix Corporation.

James was formerly the chief executive and managing director of Qantas Airways Limited from 1993 to 2001, chairman of Rip Curl Group Pty Limited, group chief executive of DB Group Limited in New Zealand, national managing partner and later chairman of law firm Corrs Chambers Westgarth, chief executive of Trans Australian Airlines (later Australian Airlines) and executive director of the Australian Mining Industry Council.

He has been admitted as a barrister and/or solicitor in various state jurisdictions in Australia. In 2006 James was made an Officer of the Order of Australia.

Directorships of other listed companies held in past three years:

- Woolworths Limited since 10 March 2000;
- IAG Finance (New Zealand) Limited since 9 November 2004; and
- Qantas Airways Limited since 1 July 2006.

### **MANAGING DIRECTOR**

#### **MICHAEL (MJ) WILKINS**

**BCom, MBA, DLI, FCA, age 52—Chief Executive Officer and Managing Director**

##### 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. He is a director of the Insurance Council of Australia.

Michael was formerly the managing director of Promina Group Limited (from August 1999 to March 2007), managing director of Tyndall Australia Limited (from 1994 to 1999) and a director of the Investment and Financial Services Association.

##### OTHER BUSINESS EXPERIENCE

He is currently a non-executive director of Maple-Brown Abbott Limited and a former non-executive director of Alinta Limited.

In 2004, Michael was voted as Outstanding Chartered Accountant in Business and in 2005 as ANZIIF Insurance Personality of the Year.

Directorships of other listed companies held in past three years:

- Promina Group Limited from 1 August 1999 to 20 March 2007;
- Alinta Limited from 18 July 2005 to 31 August 2007; and
- IAG Finance (New Zealand) Limited from 28 May 2008.

## **OTHER DIRECTORS**

### **YASMIN (YA) ALLEN**

**BCom, FAICD, age 45—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 Audit, Risk Management & Compliance Committee and a member of the IAG Nomination, Remuneration & Sustainability Committee. She had six years experience on the board of Export Finance and Insurance Corporation.

#### OTHER BUSINESS EXPERIENCE

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Macquarie Specialised Asset Management (and chairman of its Audit Committee) 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, an associate director at James Capel UK Ltd (HSBC Group) and an analyst at Kleinwort Benson plc Investment Bank in the UK.

Directorships of other listed companies held in past three years:

- none.

### **PHILLIP (PM) COLEBATCH**

**BE (Hons), BSc, DBA, SM, age 64—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 EXPERIENCE

Prior to joining Swiss Re as division head, capital management and advisory, he spent 17 years with the Credit Suisse Group where, in addition to his board position, he served as chief financial officer 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.

Phillip is a non-executive director of Lend Lease Corporation Limited and Man Group plc.

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 61—Independent non-executive director**

#### INSURANCE INDUSTRY EXPERIENCE

Hugh Fletcher was appointed as a director of IAG in September 2007 and as a director of the IAG New Zealand board 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 EXPERIENCE

Hugh is also a non-executive director of the Reserve Bank of New Zealand, Fletcher Building Limited, Rubicon Limited and Vector Limited, and councillor of The University of Auckland.

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. Hugh retired from an executive position in December 1997 after 28 years as an executive, 11 of which he served as chief executive.

Directorships of other listed companies held in past three years:

- Fletcher Building Limited since 31 January 2001; and
- IAG Finance (New Zealand) Limited since 31 August 2008.

**ANNA (A) HYNES****BSc (Hons), MBA (Harvard), age 50—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 Audit, Risk Management & Compliance Committee. Anna was formerly a non-executive director of Promina Group Limited.

## OTHER BUSINESS 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.

Anna is also an adjunct professor at the University of Technology Sydney.

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

Directorships of other listed companies held in past three years:

- Country Road Limited from 5 February 2003 to 31 January 2006; and
- Promina Group Limited from 6 December 2004 to 20 March 2007.

**BRIAN (BM) SCHWARTZ****FCA, AM, age 56—Independent non-executive director**

## INSURANCE INDUSTRY EXPERIENCE

Brian Schwartz was appointed as a director of IAG in January 2005. He is chairman of the IAG Nomination, Remuneration & Sustainability Committee.

## OTHER BUSINESS EXPERIENCE

Brian is a non-executive director of Brambles Limited and Westfield Group Limited and is a consultant to Investec Bank (Australia) Ltd. He is also the deputy chairman of the board of Football Federation Australia Limited and a member of the Federal Government's Australian Multicultural Advisory Council.

Until recently Brian was the chief executive of Investec Bank (Australia) Ltd, retiring in March 2009. Previously, Brian 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 region.

Brian was appointed a Member of the Order of Australia in 2004 for his services to business and the community.

Directorships of other listed companies held in past three years:

- Brambles Limited since 13 March 2009; and
- Westfield Group Limited since 6 May 2009.

**PHILIP (PJ) TWYMAN****BSc, MBA, FIA, FIAA, FAICD, age 65—Independent non-executive director**

## INSURANCE INDUSTRY EXPERIENCE

Philip Twyman was appointed as a director of IAG in July 2008.

He 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.

Philip is on the boards 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 since April 2007.

## OTHER BUSINESS EXPERIENCE

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

Directorships of other listed companies held in past three years:

- Perpetual Limited since November 2004.

**FORMER DIRECTORS WHO RETIRED DURING THE FINANCIAL YEAR**

The following directors retired during the financial year:

- ND Hamilton and RA Ross retired from the board on 31 August 2008.

**SECRETARY OF INSURANCE AUSTRALIA GROUP LIMITED****GLENN (GD) REVELL****BCom, MBus, FCPA, FCIS, GAICD**

Glenn Revell was appointed Company Secretary in October 2002. Prior to joining IAG, he held the position of general manager corporate affairs & company secretary of Howard Smith Limited for eight years.

## 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 AUDIT COMMITTEE		IAG RISK MANAGEMENT & COMPLIANCE COMMITTEE		IAG NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE		IAG AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE		IAG SUB COMMITTEE	
	Eligible to attend as a member	Attend as a member	Eligible to attend as a member	Attend as a member	Eligible to attend as a member	Attend as a member	Eligible to attend as a member	Attend as a member	Eligible to attend as a member	Attend as a member	Eligible to attend as a member	Attend as a member
Total number of meetings held	12		2		1		5		3		4	
JA Strong	12	12	-	-	-	-	5	5	-	-	4	4
YA Allen	12	12	2	2	-	-	5	5	3	3	-	-
PM Colebatch	12	12	-	-	1	1	3	3	-	-	-	-
HA Fletcher	12	12	2	2	-	-	-	-	3	3	-	-
ND Hamilton <sup>(a)</sup>	2	2	-	-	1	1	-	-	-	-	-	-
A Hynes	12	12	-	-	1	1	-	-	3	3	-	-
RA Ross <sup>(a)</sup>	2	2	-	-	1	1	2	2	-	-	-	-
BM Schwartz	12	12	2	2	-	-	5	5	-	-	-	-
PJ Twyman <sup>(b)</sup>	11	10	-	-	-	-	-	-	3	2	-	-
MJ Wilkins	12	12	-	-	-	-	-	-	-	-	4	4

(a) ND Hamilton and RA Ross retired on 31 August 2008.

(b) PJ Twyman appointed on 9 July 2008.

## PRINCIPAL ACTIVITIES

The principal continuing activities of the IAG 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 IAG Group's net profit after tax for the financial year was \$247 million (2008—net loss of \$226 million). After adjusting for minority interests in the IAG Group result, net profit attributable to the equity holders of the Company was \$181 million (2008—net loss of \$261 million).

This has been a year of rebuilding for IAG, with the IAG Group delivering on all the immediate priorities outlined in its refined corporate strategy. These actions have contributed to an improved financial performance in this year.

While the degree of improvement has been significant, it was less than anticipated at the beginning of the financial year. This was primarily due to the adverse impact from unprecedented volatility in financial markets, higher than anticipated natural peril costs, a slower than expected recovery by Australia intermediated insurance (CGU) and a disappointing first half performance from New Zealand.

The IAG Group has reported an improved insurance margin of 7.1%, compared to 5.4% in the prior year and updated guidance of 6%+ provided in February 2009. The insurance margin for the ongoing business was 7.7%. This improved performance includes:

- a strong result from Australia direct insurance, reflecting increased volumes and rate increases;
- improved cost control, with a \$130 million pre tax run-rate of Australian cost savings achieved;
- a return to profitability by New Zealand in the second half of the year;
- the sale of the loss making, non-core UK businesses half-way through the year;
- \$451 million in natural peril costs, net of reinsurance (2008—\$502 million);
- higher than originally expected reserve releases of \$215 million (2008—\$406 million);
- a reduced negative credit spread impact of \$13 million (2008—\$122 million);
- an adverse \$50 million effect from a lower running yield on investment income on technical reserves; and
- a \$38 million net impairment of deferred acquisition costs of which \$50 million relates to a writedown in relation to Australia intermediated insurance as required by the liability adequacy test.

The IAG Board has determined to pay a final dividend of 6.0 cents per ordinary share (fully franked), bringing the total dividend for the year to 10.0 cents (2008—22.5 cents per ordinary share).

### A. AUSTRALIA DIRECT

- The IAG Group's largest business grew gross written premium by 9.1% and delivered an improved insurance margin.
- The strong result was supported by increased rates, volume gains, lower natural peril claims, cost-saving initiatives and a reduced negative impact from credit spreads.

### B. AUSTRALIA INTERMEDIATED (CGU)

- CGU's underlying full year insurance margin has improved, after allowing for a \$131 million reduction in reserve releases, higher natural peril costs, a lower adverse impact from credit spreads and a \$50 million writedown of deferred acquisition costs.
- This reflects early benefits from CGU's back-to-basics focus on greater underwriting discipline, rate increases claims management and tight expense control. While new business levels reduced, customer retention remained high.

### **C. NEW ZEALAND**

- New Zealand delivered a break-even result for the current year, after a disappointing first half loss.
- The improvement in the second half is due to increased rates, better risk selection, lower claims costs and better expense control.

### **D. UNITED KINGDOM**

- The performance of the UK business improved significantly reflecting the sale of underperforming assets, rate increases and the continued shift of the portfolio mix away from private motor.
- The retained business, Equity Red Star, delivered a sound margin, excluding reserve releases from a syndicate in run-off.

### **E. ASIA**

- The performance of the IAG Group's existing businesses in Thailand and Malaysia improved on the back of tighter underwriting, rate increases and improved cost control.
- Important strategic achievements included the signing of a joint venture agreement with State Bank of India and an increase in ownership of AmG Insurance Berhad in Malaysia to 49%.

## **REVIEW OF FINANCIAL CONDITION**

### **A. FINANCIAL POSITION**

The total assets of the IAG Group as at 30 June 2009 were \$19,315 million compared to \$19,380 million at 30 June 2008. The decline primarily reflects the disposal of the non-core UK businesses.

The total liabilities of the IAG Group as at 30 June 2009 were \$14,479 million compared to \$15,029 million at 30 June 2008. The decrease is mainly attributable to:

- the disposal of the non-core UK businesses; and
- the buyback of approximately £144 million of GBP subordinated term notes.

The increase in IAG shareholders' equity from \$4,351 million at 30 June 2008 to \$4,836 million at 30 June 2009 largely reflects:

- capital management initiatives which saw \$450 million raised by way of a placement to institutional investors in February 2009 and a further \$84 million from a Share Purchase Plan completed in April 2009; and
- net earnings attributable to shareholders of \$181 million.

### **B. CASH FROM OPERATIONS**

The net cash inflows from operating activities increased by \$409 million to \$414 million (2008—\$5 million). The improvement was mainly due to a decrease in net claims payments in the current year. In 2008, net claims payments included those for the June 2007 storms.

### **C. CAPITAL MANAGEMENT**

The IAG Group's capital position improved during the year with an MCR ratio of 1.79 at 30 June 2009. This reflected:

- a capital raising of \$534 million (before transaction costs);
- the repurchase of £144 million of GBP subordinated term notes at a 30% discount to face value; and
- implementation of a revised dividend policy of 50%–70% of cash earnings.

The IAG Group's probability of adequacy for the outstanding claims provision remains unchanged at 90% as at 30 June 2009, with risk margins increasing slightly to 19.1% of the net discounted central estimate.

At 30 June 2009, IAG held an 'A+' rating at the IAG Group level and the key wholly owned operating insurance subsidiaries hold 'AA-' ratings, from Standard & Poor's.

The IAG Group's debt to total tangible capitalisation at 30 June 2009 stood at 29.2%, which is slightly below the IAG Group's targeted range of 30%–40%.

Further information on the IAG Group's result and review of operations can be found in the 30 June 2009 Investor Report on IAG's website, [www.iag.com.au](http://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.

The IAG Group is confident of further improvement in operating performance in 2010. Its guidance for the year ending 30 June 2010 is:

- reported gross written premium growth in the range of 1%–3%;
- underlying gross written premium growth in the range of 3%–5%; and
- an insurance margin in the range of 9%–11%.

Underpinning this improved outlook are:

- higher premiums, including the earned effect of rate rises implemented in 2009;
- ongoing operating efficiencies across the IAG Group;
- improved underwriting discipline, in particular in Australia intermediated insurance and New Zealand;
- hardening market conditions in most businesses; and
- reduced exposure to the underperforming United Kingdom private motor market.

This guidance is based on:

- losses from natural peril claims being within the budgeted allowance of \$350 million; and
- no material movement in foreign exchange rates or investment markets.

Moving forward, the IAG Group's priorities remain to:

- improve the performance of the Australian and New Zealand businesses;
- pursue selective general insurance growth opportunities; and
- drive operational performance and accountability.

It is IAG's objective to deliver a cash return on equity of at least 1.5 times the IAG Group's weighted average cost of capital and a top quartile shareholder return, through the cycle.

## **DIVIDENDS**

Details of dividends paid or declared by the Company are set out in note 9.

## **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

Significant changes in the state of affairs of the IAG Group during the financial year were as follows:

- as part of the restructuring announced on 9 July 2008, there were changes in the executive team during the financial period:
  - NB Hawkins, LC Murphy and IR Foy were appointed to the Chief Financial Officer, Group Executive Corporate Office and Chief Executive Officer, IAG New Zealand roles respectively; and
  - AM Coleman, CF McLoughlin, J van der Schalk and G Venardos left the IAG Group;
- A Cornish was appointed to the role of Chief Executive Officer, Direct Insurance effective 2 February 2009; and
- during February 2009, IAG completed the sale of its non-core mass market distribution businesses in the United Kingdom in line with its strategy to concentrate on its profitable specialist motor underwriting business in that market. Refer to note 25 to the financial statements for details of the transactions.

## **EVENTS SUBSEQUENT TO REPORTING DATE**

Detail of matters subsequent to the end of the financial year is set out in note 37. This includes the IAG Board determination to pay a final dividend.

## **OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITORS**

The following person is currently an officer of the IAG 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 IAG 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 their 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, are satisfied that the provision of those non audit services by the IAG 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 11.3% of total audit fees (refer to note 5 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 36 and forms part of the directors' report for the year ended 30 June 2009.

## **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;
- a secretary of the Company or of a subsidiary of the Company;
- 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. Under each deed, the Company 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.

## ENVIRONMENTAL REGULATION

The IAG Group's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the IAG Group's operations. The board of directors believes that the IAG 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 IAG Group.

## SNAPSHOT OF IAG EXECUTIVE AND DIRECTOR REMUNERATION

### A. SUMMARY OF IAG'S APPROACH TO REMUNERATION

This snapshot provides a summary of IAG's approach to executive and non-executive director remuneration, key changes to the remuneration framework, and the arrangements for the year ended 30 June 2009.

The IAG Board and the Nomination, Remuneration & Sustainability Committee oversee IAG's Remuneration Policy and approve remuneration outcomes for directors and executives. The IAG Board has decided that there should be no increase in the directors' fees and also agreed with the executive team that there should be no increase to the fixed remuneration of executives during the next financial year ending 30 June 2010.

IAG's approach to executive and non-executive director remuneration is aimed at ensuring IAG can attract and retain the best people and reward performance so that remuneration is aligned with returns delivered to shareholders. In particular, executive remuneration is designed so that it:

- is market competitive to attract and retain high quality people;
- motivates executives to perform at the highest level;
- is appropriately balanced to reflect the impact of executives on short and long term results; and
- aligns the remuneration of executives with returns for shareholders.

### B. KEY FEATURES OF THE REMUNERATION FRAMEWORK

#### I. Executive

There are four main components to executive remuneration:

##### a. FIXED PAY

Fixed pay includes cash salary, salary sacrifice items such as superannuation, cars or parking and any related taxes. Fixed pay is set towards the middle of the market of comparable roles in companies of a similar size to IAG, and is reviewed each year based on advice from external consultants. No member of the executive team will receive an increase to their fixed pay during the next financial year ending 30 June 2010.

##### b. SHORT TERM INCENTIVE

Short term incentive is a payment based on the individual executive's performance, the financial performance of the business they run and the financial performance of IAG. The performance of each executive is measured annually using a balanced scorecard that contains a mix of financial and non financial measures. The maximum short term incentive for the Managing Director and Chief Executive Officer is 150% of fixed pay and for other executives 120% of fixed pay. Presently, the IAG Board has determined that 2/3 of a short term incentive will be paid as cash within three months of the end of the year during which it was earned and 1/3 should be deferred for up to three years. The deferred amount is provided to executives as a grant of rights over IAG shares in the form of Deferred Award Rights.

##### c. LONG TERM INCENTIVE

Long term incentive is a grant of rights over IAG shares in the form of Executive Performance Rights that are exercisable for shares between three and five years after the date of grant if performance hurdles are achieved. The performance hurdles are total shareholder return relative to the top 50 industrial companies in the S&P/ASX 100 Index, and the IAG Group's profitability, which is measured by assessing return on equity relative to the IAG Group's weighted average cost of capital. The amount of long term incentive granted each year is determined by the IAG Board.

##### d. MANDATORY HOLDING OF IAG SHARES

The Managing Director and Chief Executive Officer is required to have a holding of IAG shares with a value of two times his base salary, within four years of appointment. Other executives are required to accumulate and maintain IAG shares with a value that is equal to their base salary within four years of their appointment to the executive team.

#### II. Non-executive directors

There are three main components to non-executive director remuneration:

##### a. FEES

Non-executive directors receive fees for serving on the IAG Board and for serving on sub committees of the IAG Board. Some non-executive directors also receive fees for serving on the subsidiary boards within the IAG Group. The maximum amount of fees, in aggregate, that can be paid to non-executive directors is approved by shareholders. The present maximum is \$2,750,000 which was approved by shareholders at the 2007 Annual General Meeting. There was no general increase applied to non-executive director fees during the financial year ended 30 June 2009 and no increases are planned in the next financial year ending 30 June 2010.

##### b. FEE SACRIFICE FOR IAG SHARES

The IAG Board had previously adopted a policy that required non-executive directors to receive at least 20% but not more than 90% of their IAG Board fee in the form of IAG shares. Shares were held in trust and could only be sold or otherwise disposed of by a non-executive director with approval of the IAG Board. The IAG Board reviewed this policy in view of the government's announcement on 1 July 2009 concerning changes to the taxation of employee share schemes and decided that there will be no further offers under the Non-executive Directors' Share Plan.

##### c. SUPERANNUATION

IAG pays superannuation of 9% of fees into a superannuation fund nominated by the non-executive director.

## C. KEY CHANGES TO REMUNERATION DURING THE YEAR

The IAG Board has made a number of changes to executive and director remuneration, including:

- setting a maximum value for short term incentive payments for the executive team;
- adjusting the performance hurdles for future grants of long term incentive under the Executive Performance Rights Plan to a better match of comparable companies. In the future, performance will be benchmarked to that of the top 50 industrial companies in the S&P/ASX 100 Index;
- deciding to seek shareholder approval for future grants of long term incentives in the form of Executive Performance Rights and deferred short term incentives in the form of Deferred Award Rights to the Managing Director and Chief Executive Officer; and
- deciding there should be no further offers under the Non-executive Directors' Share Plan and adopting a shareholding policy that requires non-executive directors to attain an IAG shareholding with a value approximately equal to their IAG Board fee within a period of three years from the date of the director's appointment to the IAG Board. For current directors the three year period will commence from 17 August 2009, being the date the IAG Board adopted the policy.

More detail on these changes and the elements of executive and non-executive director remuneration is contained in the remuneration report.

## REMUNERATION REPORT—AUDITED

This report outlines IAG's remuneration policies and practices and provides details of the remuneration of the IAG Board of Directors (including the Chief Executive Officer) and also the remuneration of the senior executives having the greatest authority and responsibility for planning, directing and controlling the activities of the IAG Group. This group is known as IAG key management personnel (KMP).

The non-executive directors are not part of 'management', however, the Company's non-executive directors are specifically required to be included as KMP in accordance with the Australian Accounting Standard AASB 124 Related Party Disclosures.

This report provides the disclosures which meet the remuneration reporting requirements of the Corporations Act 2001 and AASB 124. The term remuneration used in this report has the same meaning as compensation as prescribed in AASB 124.

## NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE

The role and responsibilities of the Nomination, Remuneration & Sustainability Committee (Committee or NRSC) are set out in the Committee's charter which is available at [www.iag.com.au](http://www.iag.com.au). The key responsibilities of the NRSC in relation to remuneration are to:

- provide assurance to the board relating to the effectiveness, integrity and compliance of the Company's remuneration policies and practices; and
- ensure the overall remuneration policy and approach fit the strategic goals of IAG.

The Chief Executive Officer (CEO), Group Executive, Corporate Office and Head of Group Human Resources regularly attend Committee meetings and assist the Committee in its deliberations.

The Committee receives reports from various independent consultants concerning remuneration for executives and directors and related matters.

## A. EXECUTIVES

### I. Executive remuneration policy

IAG's approach to executive remuneration is to ensure that IAG can attract and retain the best people and reward performance aligned with returns delivered to shareholders. Building and retaining a high quality management team will enable IAG to achieve superior long term performance.

The principles that underpin IAG's approach to executive remuneration are that:

- the remuneration offering is sufficiently competitive to attract and retain a high calibre executive team;
- remuneration practices are consistent with IAG's values;
- remuneration practices are consistent with IAG's Risk Management Strategy;
- the mix of fixed and variable remuneration reflects the impact of each executive position on IAG's short term and long term results;
- reward outcomes are significantly differentiated based on performance;
- remuneration practices will help drive business objectives and motivate employees to perform at the highest level; and
- measures of performance are based on a balanced scorecard with a focus on the delivery of sustainable value to the shareholders.

IAG aims to set base pay around the median of the market. Total reward outcomes (which include short and long term incentives) may be at the 75th percentile or above depending on individual performance and IAG's results. For Australian based executives, market positioning is determined by reference to a number of comparator groups, including the largest 50 companies in the S&P/ASX 100 Index and financial services companies that are among the largest 50 companies in the S&P/ASX 100 Index. Relevant local market comparator groups are used for executives located overseas.

### II. Significant changes related to executive remuneration

#### a. EXECUTIVE TEAM CHANGES

On 9 July 2008, IAG announced changes to the executive team effective from the end of August 2008. The changes were:

- NB Hawkins was appointed to the role of Chief Financial Officer;
- LC Murphy was appointed to the role of Group Executive, Corporate Office;
- IR Foy was appointed to the role of Chief Executive Officer, New Zealand;
- G Dransfield was appointed as acting Chief Executive Officer, Direct Insurance until the appointment process for this role was completed; and
- AM Coleman, J van der Schalk and G Venardos left the IAG Group on 29 August 2008 and CF McLoughlin left the IAG Group on 30 September 2008.

On 2 February 2009, A Cornish commenced his employment with the IAG Group taking up the role of Chief Executive Officer, Direct Insurance.

The remuneration details in section VI.a are only in respect of remuneration for services provided for the relevant period during the financial year.

b. EXECUTIVE SALARY FREEZE

Given the current economic uncertainty and IAG's continuing focus on managing costs, the executive team has unanimously agreed that they should not receive an increase to their fixed pay in 2009.

c. REMUNERATION STRUCTURE AND POLICY

i. Policies on short term and long term incentives

The following changes have been made to IAG's executive remuneration policy in relation to short term incentives (STI) and long term incentives (LTI):

- STI and LTI are now calculated as a percentage of fixed pay (base salary plus superannuation) rather than base salary; and
- a maximum cap is set for STI and LTI to limit the total additional remuneration other than fixed pay that can be earned by the executives. The table below shows the maximum cap which is set and communicated to the executives. The actual STI and LTI awarded to the executives for the current financial year outlined in section VII.b in this report.

ROLE	STI MAXIMUM (% FIXED PAY)	LTI MAXIMUM (% FIXED PAY)
Group CEO	150%	-%*
Business CEO	120%	125%
Corporate office executive	120%	125%

\* The IAG Board recognises that LTI forms a substantial component of the Group CEO's remuneration, however a maximum LTI value was not set for the year ended 30 June 2009. The face value of the LTI awarded to the Group CEO was 162% of fixed pay.

In addition, the IAG Board will seek shareholder approval for future grants of long term incentives in the form of Executive Performance Rights and deferred short term incentives in the form of Deferred Award Rights to the Managing Director and Chief Executive Officer.

ii. Changes to short term incentives performance measures

For the year ended 30 June 2009, return on risk based capital (RORBC) was a new performance measure used to link a portion of the executive STI to the IAG Group's financial performance. RORBC is an appropriate measure for a general insurance business to use to assess financial performance as it recognises relative portfolio risks and closely links portfolio performance to the IAG Group's outcomes.

For the future performance period ending 30 June 2010, RORBC will be one of the key metrics used to assess financial performance at both the IAG Group and individual Business Unit level for the purposes of assessing executive STI.

iii. Changes to long term incentives performance measures

The Executive Performance Rights (EPR) Plan has two performance hurdles—return on equity (ROE) and relative total shareholder return (TSR). There are changes to both ROE and TSR hurdles:

- ROE is measured relative to IAG's weighted average cost of capital. For rights granted in the year ended 30 June 2009, the ROE hurdle is cash ROE (previously normalised ROE) to align with the reporting of IAG's financial performance to the external market. Section IV.b.ii provides details of the performance hurdles before and after the changes; and
- TSR is a measure of the relative return IAG delivers to the shareholders compared to other entities. For those rights allocated before 30 June 2009, TSR was measured against other companies in the S&P/ASX 100 Index. The IAG Board has approved a change to the peer group for allocations made after 1 July 2009 to the top 50 industrials within the S&P/ASX 100 Index. The adoption of this peer group creates a more comparable target for IAG and maintains a peer group of companies that compete for general investment funds.

iv. Impact of regulatory requirements

The NRSC has completed an initial review of the IAG Group's executive remuneration policies and practices against the draft Prudential Standard released by the Australian Prudential Regulation Authority (APRA) in May 2009. The NRSC's view is that the IAG Group's executive remuneration policy and practices are broadly aligned with the draft Prudential Standard. A further review will be completed once the Prudential Standard is finalised.

On 1 July 2009, the government released a policy statement concerning the taxation of employee share schemes. These changes appear to limit the effectiveness of salary or fee sacrifice share plans such as the Non-executive Directors' Share Plan. The IAG Board has decided to make no further offers under the Non-executive Directors' Share Plan and adopt a shareholding policy that requires non-executive directors to attain a shareholding with a value approximately equal to their IAG Board fee within a period of three years from the date of the director's appointment to the IAG Board. For current directors the three year period will commence from 17 August 2009, being the date the IAG Board adopted the policy.

Further regulatory changes may follow the Productivity Commission's Inquiry into the Regulation of Directors and Executives Remuneration in Australia. The NRSC will review the IAG Group's Remuneration Policy in light of any such changes.

POLICY	HOW DELIVERED	DETAILS
<b>III. Executive remuneration structure</b>		
<b>a. FIXED PAY</b>		
Fixed pay is defined as base salary plus superannuation.	A proportion of fixed pay is paid as cash and a proportion is paid as superannuation.	Base salary includes all components that make up an executive's salary. Components include cash, salary sacrifice items such as superannuation, cars or parking and any related taxes.
Fixed pay is targeted at the median of the market. Unless there has been significant change in job responsibility, increases in fixed pay generally do not exceed external market movements.	Superannuation (employer contribution) is paid in accordance with legislative requirements.  Fixed pay is reviewed annually.	Fixed pay is determined by a review of job size, internal relativities and market benchmarking. An independent consultant provides advice on job responsibility and market benchmarking. The comparator groups for market benchmarking are the largest 50 companies in the S&P/ASX 100 Index and the financial services companies that are among the largest 50 companies in the S&P/ASX 100 Index.
<b>b. SHORT TERM INCENTIVES</b>		
Short term incentives (STI) are used to motivate and reward performance typically over a one year period.	Annually, a proportion of STI is paid as cash and a proportion of STI is paid as Deferred Award Rights (DAR) which is referred to as 'Deferred STI' later in this report.	IAG uses a balanced scorecard for setting goals and measuring performance. This ensures that assessment of performance is viewed holistically and assists the development of an economically sustainable business that meets the performance expectations of IAG shareholders, stakeholders and the communities in which it conducts its business.
Payments are based on both IAG's performance and achievement of individual goals.	DAR are rights over issued shares held by a trustee.	At the commencement of each financial year, financial and non financial goals are set for each executive. The goals set are stretch goals and are designed to encourage executives to strive for exceptional performance.
The STI payment recognises individual high performance.	If an executive remains employed by the IAG Group, the DAR will become exercisable in tranches as follows: <ul style="list-style-type: none"> <li>■ 50% (after Year 1);</li> <li>■ 30% (after Year 2); and</li> <li>■ 20% (after Year 3).</li> </ul>	Financial performance determines 50% of the STI outcome, with the remainder dependent on the achievement of objectives relating to business strategy, customer, people and business process (including risk management).
		Financial performance includes the IAG Group financial target (RORBC) as well as specific business unit financial targets.
		At the end of the financial year the amount of any incentive payment is determined based on measured achievement against those goals and a review of the executive's overall performance by the CEO and NRSC. The Chairman reviews the performance of the CEO and makes a recommendation to the board in relation to any incentive payment for the CEO. The Chairman and board have an overriding discretion to determine STI payments and will only approve payments when the goals are achieved in the context of the IAG Group's strategy and risk appetite (e.g. risk appetite and risk management strategy) as approved by the board.
		Section IV.a ('At risk' remuneration—short term) details the link between IAG's performance and STI outcomes for executives.

POLICY	HOW DELIVERED	DETAILS
c. LONG TERM INCENTIVES		
EPR are awarded to drive performance over three to five years and to strengthen the alignment between the interests of executives and shareholders.	<p>Under the EPR Plan, awards are made annually in the form of rights over issued shares held by a trustee that vest, subject to the performance conditions, as follows:</p> <ul style="list-style-type: none"> <li>■ 50% are subject to a relative TSR hurdle (entities in the S&amp;P/ASX 100 Index), measured on the 3rd, 4th and 5th anniversaries of the base date; and</li> <li>■ 50% are subject to an ROE hurdle, measured after three financial years.</li> </ul> <p>Awards that do not vest, lapse.</p>	<p>EPR grants are determined annually and based on an assessment of performance, leadership capability and strategic input.</p> <p>Section IV.b ('At risk' remuneration—long term) details the link between return to shareholders and LTI outcomes for executives.</p>
d. MINIMUM SHAREHOLDING REQUIREMENT		
IAG's minimum shareholding requirement was introduced in August 2007 to ensure economic alignment between executives and shareholders.	<p>In accordance with this policy, the Group CEO is required to accumulate and maintain a minimum holding of IAG shares equivalent in value to two years of base salary by May 2012. Other executives are required to accumulate and maintain a minimum holding of IAG shares equivalent to one year of base salary by the later of September 2010 or four years from appointment as a member of the executive team.</p>	

#### IV. Relationship between executive reward and IAG's performance

A significant component of executive remuneration is 'at risk' which ensures a direct link between IAG's performance and reward for executives. For further details of the percentage of 'at risk' remuneration, refer to section VII.

##### a. 'AT RISK' REMUNERATION—SHORT TERM

The payment of STI is directly linked to IAG's performance over the previous year based on a balanced scorecard of measures.

The methods of assessment have been selected as they can be objectively measured and verified. The IAG Group financial target for the financial year ended 30 June 2009 is the return on risk based capital (RORBC). Financial targets are also set for each business unit, which are approved by the Group CEO. In the year ended 30 June 2009, the financial targets have been focused on profitability. The following table details the weighting of different performance measures (financial and balanced scorecard) on the total STI for the Group CEO and executives.

ROLE	FINANCIAL MEASURES		BALANCED SCORECARD MEASURES
	Group financial targets	Country or business financial targets	
CEO	50%	–%	50%
Business CEO	10%	40%	50%
Corporate office executives	50%	–%	50%

Actual short term incentive payments made to executives for the year ended 30 June 2009 reflect the degree of achievement against the applicable financial measures and the degree of achievement against each individual executive's balanced scorecard measures.

For the performance period for the year ending 30 June 2010, RORBC will be the primary measure used to assess financial performance at both the IAG Group and individual business unit/country level.

##### b. 'AT RISK' REMUNERATION—LONG TERM

The use of share based remuneration creates a direct link between return to shareholders and executive reward. To strengthen alignment between the interests of executives and those of shareholders, a significant portion of executive remuneration is delivered in the form of rights over IAG shares. Note 29 to the financial statements sets out further details of the DAR Plan, EPR Plan and PAR Plan.

##### i. Deferred Award Rights Plan

DAR are rights over issued shares held by a trustee. The rights are granted at no cost to the executives and may be exercised for a nominal price at a future date determined by the IAG Board. The rights vest after a period (currently the maximum is three years) as determined by the IAG Board subject to the executives continuing in relevant employment for the full period. When executives cease employment in special circumstances, such as redundancy, rights vest on cessation of employment. DAR are generally used as a way of providing deferred short term incentive.

ii. Executive Performance Rights Plan

The EPR Plan is IAG's executive long term incentive plan.

EPR are rights over issued shares held by a trustee. The rights are granted at no cost to executives and will be exercised at no cost if the performance hurdles related to IAG's TSR and ROE are met. For series 1, normalised ROE is measured relative to IAG's weighted average of cost of capital (WACC) and from series 2 onwards, cash ROE is measured relative to IAG's WACC.

Details of the terms of allocations made to executives under the EPR Plan are in the table below.

	EPR PLAN 2007/2008—SERIES 1		EPR PLAN 2008/2009—SERIES 2	
	TSR	Normalised ROE	TSR	Cash ROE
Grant date	29/10/2007 29/11/2007 13/03/2008	29/10/2007 29/11/2007 13/03/2008	18/09/2008 27/02/2009	18/09/2008 27/02/2009
Base date	30 September 2007	n/a	30 September 2008	n/a
Performance period definition	3–5 years from grant date	1 July 2007–30 June 2010	3–5 years from grant date	1 July 2008–30 June 2011
IAG share price at base date (\$)	5.31	n/a	4.10	n/a
Performance hurdle test schedule	3rd, 4th and 5th anniversary of the base date	One test following board approval of financial results for period ending 30 June 2010	3rd, 4th and 5th anniversary of the base date	One test following board approval of financial results for period ending 30 June 2011
First test day	30/09/2010	30/06/2010	30/09/2011	30/06/2011
Last test day	30/09/2012	30/06/2010	30/09/2013	30/06/2011
Performance hurdle achievement	n/a	n/a	n/a	n/a
Last exercise date (continuing employees only)	29/10/2017 29/11/2017 13/03/2018	29/10/2017 29/11/2017 13/03/2018	18/09/2018 27/02/2019	18/09/2018 27/02/2019

The table below details common conditions applicable to all the EPR Plans on issue as disclosed in the table above.

	TSR PERFORMANCE HURDLE (50% OF TOTAL ALLOCATION)	ROE PERFORMANCE HURDLE (50% OF TOTAL ALLOCATION)	
Performance condition	IAG TSR compared to a peer group of companies. The peer group comprises the entities in the S&P/ASX 100 Index with such inclusions and exclusions as the board may determine.	ROE relative to IAG's WACC. ROE is measured for each six month period during the performance period and compared to WACC for that period. The average of these six half yearly measurements over the three financial years indicates whether any EPR vest in accordance with the vesting schedule below.	
Vesting schedule—before 1 July 2008	<50th percentile—0% vesting =50th percentile—50% vesting >=75th percentile—100% vesting  The percentage of EPR which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile.	<b>NORMALISED ROE PERFORMANCE</b> >1.6 x WACC =1.5 x WACC =1.4 x WACC =1.3 x WACC <1.3 x WACC	<b>VESTING SCALE</b>  100% vesting 80% vesting 50% vesting 20% vesting 0% vesting
Vesting schedule—from 1 July 2008	<50th percentile—0% vesting =50th percentile—50% vesting >=75th percentile—100% vesting  The percentage of EPR which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile.	<b>CASH ROE PERFORMANCE</b> >1.8 x WACC =1.7 x WACC =1.6 x WACC =1.5 x WACC <1.5 x WACC	<b>VESTING SCALE</b>  100% vesting 80% vesting 50% vesting 20% vesting 0% vesting

#### PERFORMANCE HURDLE TESTING

The total allocation is separated into two equal portions. Each portion has a different performance hurdle.

##### Total shareholder return performance hurdle (50% of total allocation)

The performance hurdle is tested on the 3rd, 4th and 5th anniversary of the base date. On each test day, the TSR performance hurdle is measured from the base date to the test date, which means that any period of poor TSR performance following the base date is always included in the TSR measurement. The TSR portion of the allocation vests on a test day if IAG's TSR is at or above the 50th percentile of the peer group of entities (S&P/ASX 100 Index) with vesting increasing on subsequent test days only if the TSR ranking has improved. This approach to performance hurdle testing ensures that executives strive to deliver TSR performance over the full five year period.

### Return on equity performance hurdle (50% of total allocation)

The ROE hurdle is measured relative to IAG's WACC. There is only one test date for the ROE portion of the EPR. ROE is measured for each six month period and compared to WACC for that period. The average of the six half yearly measurements over the three financial years indicates whether any EPR vest and are exercisable for shares. For series 1 ROE portion of EPR to become exercisable, IAG's normalised ROE must reach at least 1.3 times WACC. For series 2 ROE portion of EPR to become exercisable IAG's cash ROE must reach at least 1.5 times WACC.

### VESTING OF EXECUTIVE PERFORMANCE RIGHTS—CHANGE OF CONTROL

Under the EPR Plan the board has discretion to determine if and when EPR vest in a change of control situation. In exercising this discretion the board would consider issues such as the objectives of the EPR Plan and the circumstances surrounding the proposed change of control.

#### iii. Performance Award Rights Plan

No allocations have been made under the PAR Plan since 2007 and no further allocations are planned.

PAR are rights over issued shares held by a trustee. The rights are granted at no cost to executives and may be exercised for a nominal price if a performance hurdle related to IAG's TSR is met.

Details of the terms of allocations made to executives under the PAR Plan, including those allocations that at the date of this report are partially exercisable or not exercisable, are summarised below.

	PAR PLAN 2002/2003— SERIES 1	PAR PLAN 2003/2004— SERIES 2	PAR PLAN 2004/2005— SERIES 3	PAR PLAN 2005/2006— SERIES 4	PAR PLAN 2006/2007— SERIES 5
Grant date	24/12/2002	22/09/2003 10/12/2003 26/03/2004	17/09/2004 30/11/2004	19/09/2005 30/11/2005 22/03/2006	19/12/2006 13/03/2007
Performance period definition <sup>(a)</sup>	3–5 years from grant date	3–5 years from base date <sup>(b)</sup>	3–5 years from base date <sup>(b)</sup>	3–5 years from base date	3–5 years from base date
IAG share price at base date (\$)	2.92	3.90	5.08	5.87	5.29
Performance hurdle test schedule	Quarterly—Last trading day of each calendar quarter in performance period	Quarterly—Last trading day of each calendar quarter in performance period	Quarterly—Last trading day of each calendar quarter in performance period	Quarterly—Last trading day of each calendar quarter in performance period	Quarterly—Last trading day of each calendar quarter in performance period
First test day	30/12/2005	29/09/2006	28/09/2007	30/09/2008	30/09/2009
Last test day	28/09/2007	30/06/2008	30/06/2009	30/06/2010	30/09/2011
Performance hurdle achievement	Partially achieved, 56% of PAR are exercisable and remaining 44% lapsed	Not achieved, 100% of PAR lapsed on 25 August 2008	Not achieved, 100% of PAR will lapse on 23 August 2009	Partially achieved, 54% of PAR are exercisable	n/a
Last exercise date (continuing employees only)	24/12/2012	n/a	n/a	19/09/2015 30/11/2015 22/03/2016	19/12/2016 13/03/2017

(a) The performance period will be shortened if the employee ceases employment with the IAG Group due to redundancy or in other special circumstances.

(b) The base date is the second trading day after the date on which IAG's financial results for the 12 month period ending on the 30 June that immediately precedes the grant date are announced to the Australian Securities Exchange (ASX).

The table below details common conditions applicable to all the PAR Plans on issue as disclosed above.

TSR performance condition	IAG TSR compared to a peer group of companies. The peer group comprises the companies in the S&P/ASX 100 Index with such inclusions and exclusions as the board may determine.
Vesting schedule	<50th percentile—0% vesting =50th percentile—50% vesting >=75th percentile—100% vesting  The percentage of PAR which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile.

### PERFORMANCE HURDLE TESTING

The performance hurdle is tested quarterly during the period that is between three and five years from the base date. On each test day, the TSR performance hurdle is measured from the base date to the test date, which means that any period of poor TSR performance following the base date is always included in the TSR measurement. PAR vest on a test day if IAG's TSR is at or above the 50th percentile of the peer group of companies with vesting increasing on subsequent test days only if the TSR ranking has improved. This approach to performance hurdle testing ensures that executives strive to deliver TSR performance over the full five year period.

### VESTING OF PERFORMANCE AWARD RIGHTS—CHANGE OF CONTROL

Under the PAR Plan the board has discretion to determine if and when PAR vest in a change of control situation. In exercising this discretion the board would consider issues such as the objectives of the PAR Plan and the circumstances surrounding the proposed change of control.

## RESTRICTIONS ON DEALING IN IAG SECURITIES

In addition to legal requirements that prevent any person from dealing in IAG securities when in possession of undisclosed price sensitive information, the board has implemented a policy that prohibits directors, executives and other designated senior managers from:

- dealing in IAG securities when in possession of price sensitive information;
- short term or speculative trading in IAG securities;
- transactions that limit economic risk associated with unvested entitlements to IAG securities (including EPR, PAR and DAR); and
- any trading in IAG securities without prior approval of the NRSC.

### c. IAG PERFORMANCE

#### i. Return to IAG shareholders

The following table outlines the returns IAG delivered to its shareholders for the last five financial years in relation to the closing share price, dividend paid and earnings per share.

	YEAR ENDED 30 JUNE 2005	YEAR ENDED 30 JUNE 2006	YEAR ENDED 30 JUNE 2007	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2009
Closing share price (\$)	6.01	5.35	5.70	3.47	<b>3.51</b>
Dividend paid (cents)	26.50	42.00	29.50	22.50	<b>10.00</b>
Earnings per share (cents)	49.31	47.66	32.79	(14.11)	<b>9.32</b>

## V. Service agreements

All service agreements for executives are unlimited in term but may be terminated by written notice from either party or by IAG making a payment in lieu of notice. The service agreements outline the components of remuneration paid to executives and require the remuneration of executives to be reviewed annually. The service agreements do not require IAG to increase base salary, pay a short term incentive or offer a long term incentive in any given year. N Utley's service agreement, which was in force prior to the acquisition of the Equity Insurance Group, provides for an annual base salary adjustment based on the movement in the Retail Prices Index in the United Kingdom.

NAME	NOTICE PERIOD FROM THE COMPANY	NOTICE PERIOD FROM THE EMPLOYEE	TERMINATION PROVISIONS	ADDITIONAL PAYMENT IF IAG INVOKES A RESTRAINT CLAUSE
MJ Wilkins	12 months	6 months	12 months fixed pay, plus payment for annual leave, long service leave and short term incentive that would have accrued for 12 months had termination not occurred	6 months fixed pay
JP Breheny	12 months	3 months	12 months base salary	–
A Cornish	12 months	3 months	12 months fixed pay	–
IR Foy	12 months	3 months	12 months fixed pay	–
NB Hawkins	12 months	3 months	12 months base salary	–
JS Johnson	12 months	3 months	12 months base salary	–
LC Murphy	12 months	3 months	12 months base salary	–
N Utley	12 months	12 months	12 months base salary, plus payment for the value of benefits (excluding short term incentive) that would have accrued for 12 months had termination not occurred	–
DG West	12 months	3 months	12 months base salary	–

Executives are employed by Insurance Australia Group Services Pty Limited, except for:

- IR Foy who is employed by IAG New Zealand Limited; and
- N Utley who is employed by Equity Insurance Management Limited.

a. RETRENCHMENT

In the event of retrenchment, the executives listed above (except for IR Foy and N Utley) are entitled to the greater of:

- the written notice or payment in lieu of notice as provided in their service agreement; or
- the retrenchment benefits due under the relevant company retrenchment policy.

For IR Foy and N Utley, the retrenchment payment is in accordance with the termination provisions specified in the table above.

b. COMPANY RETRENCHMENT POLICY

On retrenchment, employees with less than 25 years service will receive:

- at least eight weeks notice or payment in lieu of notice (calculated on the employee's base salary); and
- three weeks base salary for each year of continuous service to a maximum of 75 weeks base salary.

The minimum benefit that can be received is 11 weeks base salary and the maximum benefit that can be received is 83 weeks base salary.

On retrenchment, employees with 25 or more years of service or who are over 45 years of age will receive:

- at least 12 weeks notice or payment in lieu of notice (calculated on the employee's base salary); and
- three weeks base salary for each year of continuous service to a maximum of 75 weeks base salary.

The minimum benefit that can be received is 15 weeks base salary and the maximum benefit that can be received is 87 weeks base salary.

c. TERMINATION OF EMPLOYMENT WITHOUT NOTICE AND WITHOUT PAYMENT IN LIEU OF NOTICE

The employment of the executives may be terminated without notice or payment in lieu of notice in some circumstances.

Generally, this could occur where the executive:

- is charged with a criminal offence that is capable of bringing 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 Company.

d. TERMINATION OF EMPLOYMENT WITH NOTICE OR PAYMENT IN LIEU OF NOTICE

The employment of the executives may be terminated at any time by the Company with notice or payment in lieu of notice.

The amount of notice the Company must provide or the payment in lieu of notice is specified above.

**VI. Remuneration details**

a. REMUNERATION OF EXECUTIVES FOR THE IAG GROUP

The table below provides remuneration details of the executives (including those executives who left the executive team during the current year) for the IAG Group.

The following executives joined the executive team during the current year ended 30 June 2009:

- A Cornish (commenced 2 February 2009); and
- IR Foy (commenced 5 August 2008).

The following executives joined the executive team during the prior year ended 30 June 2008 (the prior year remuneration is not an annualised amount and as such is not comparable to the current year remuneration):

- MJ Wilkins (commenced 26 November 2007);
- LC Murphy (commenced 3 December 2007); and
- DG West (commenced 29 January 2008).

For an executive who was newly appointed to the executive team during any financial year, the remuneration information provided in the table below relates to the period from the date of their appointment as KMP to 30 June.

Table note	SHORT TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SUB TOTAL (EXCLUDES SHARE BASED PAYMENT)	SHARE BASED PAYMENT (SUBJECT TO CONTINUING EMPLOYMENT AND/OR PERFORMANCE HURDLES)		TOTAL	
	(1)	(2)	(3)	(4)	(5)			(6)	(7)(8)		
	Base salary	Short term incentives	Other	Superannuation	Retirement benefits	Long service leave accruals		Value of deferred short term incentives	Value of rights/shares granted		
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
Executives (including executive director)											
MJ Wilkins, Managing Director and Chief Executive Officer, KMP since 26 November 2007 <sup>(a)</sup>											
<b>2009</b>	<b>1,842</b>	<b>1,110</b>	–	<b>65</b>	–	<b>15</b>	–	<b>3,032</b>	<b>82</b>	<b>744</b>	<b>3,858</b>
2008	857	395	–	78	–	4	–	1,334	–	133	1,467
JP Breheny, Chief Executive Officer, Asia											
<b>2009</b>	<b>746</b>	<b>413</b>	–	<b>94</b>	–	<b>12</b>	–	<b>1,265</b>	<b>145</b>	<b>500</b>	<b>1,910</b>
2008	736	226	–	89	–	6	–	1,057	115	261	1,433
A Cornish, Chief Executive Officer, Direct Insurance, KMP since 2 February 2009 <sup>(a)</sup>											
<b>2009</b>	<b>378</b>	<b>200</b>	<b>343</b>	<b>10</b>	–	<b>1</b>	–	<b>932</b>	<b>27</b>	<b>71</b>	<b>1,030</b>
IR Foy, Chief Executive Officer, New Zealand, KMP since 5 August 2008 <sup>(a)</sup>											
<b>2009</b>	<b>396</b>	<b>134</b>	–	<b>73</b>	–	–	–	<b>603</b>	<b>46</b>	<b>178</b>	<b>827</b>
NB Hawkins, Chief Financial Officer											
<b>2009</b>	<b>771</b>	<b>374</b>	<b>10</b>	<b>66</b>	–	<b>31</b>	–	<b>1,252</b>	<b>127</b>	<b>467</b>	<b>1,846</b>
2008	648	137	57	89	–	10	–	941	115	303	1,359
JS Johnson, Chief Executive Officer, The Buzz											
<b>2009</b>	<b>786</b>	<b>413</b>	–	<b>47</b>	–	<b>27</b>	–	<b>1,273</b>	<b>162</b>	<b>445</b>	<b>1,880</b>
2008	726	280	–	50	–	13	–	1,069	138	232	1,439
LC Murphy, Group Executive, Corporate Office, KMP since 3 December 2007 <sup>(a)</sup>											
<b>2009</b>	<b>634</b>	<b>327</b>	–	<b>50</b>	–	<b>6</b>	–	<b>1,017</b>	<b>43</b>	<b>212</b>	<b>1,272</b>
2008	270	145	–	35	–	1	–	451	–	18	469
N Utley, Managing Director, UK											
<b>2009</b>	<b>994</b>	<b>562</b>	–	<b>140</b>	–	–	–	<b>1,696</b>	<b>190</b>	<b>541</b>	<b>2,427</b>
2008	978	590	–	127	–	–	–	1,695	90	202	1,987
DG West, Chief Executive Officer, CGU, KMP since 29 January 2008 <sup>(a)</sup>											
<b>2009</b>	<b>881</b>	<b>463</b>	–	<b>50</b>	–	<b>7</b>	–	<b>1,401</b>	<b>39</b>	<b>296</b>	<b>1,736</b>
2008	358	229	–	43	–	2	–	632	–	20	652
Executives who ceased as key management personnel <sup>(b)(c)</sup>											
G Dransfield, former Acting Chief Executive Officer, Direct Insurance, KMP only for the period from 9 July 2008 to 2 February 2009											
<b>2009</b>	<b>314</b>	<b>200</b>	–	<b>29</b>	–	<b>11</b>	–	<b>554</b>	–	–	<b>554</b>
AM Coleman, former Chief Risk Officer and Group Actuary, KMP until 29 August 2008											
<b>2009</b>	<b>124</b>	<b>100</b>	–	<b>14</b>	–	<b>19</b>	<b>887</b>	<b>1,144</b>	<b>134</b>	<b>334</b>	<b>1,612</b>
2008	713	538	–	93	–	17	–	1,361	134	395	1,890
CF McLoughlin, former Group Executive, Strategy, People & Reputation, KMP until 30 September 2008											
<b>2009</b>	<b>161</b>	<b>337</b>	–	<b>21</b>	–	<b>(15)</b>	<b>815</b>	<b>1,319</b>	<b>100</b>	<b>293</b>	<b>1,712</b>
2008	699	421	–	50	–	8	–	1,178	100	233	1,511
J van der Schalk, former Chief Executive Officer, Asset Management and Reinsurance, KMP until 29 August 2008											
<b>2009</b>	<b>63</b>	<b>69</b>	–	<b>13</b>	–	<b>20</b>	<b>820</b>	<b>985</b>	<b>69</b>	<b>278</b>	<b>1,332</b>
2008	634	360	–	50	–	10	–	1,054	69	267	1,390
G Venardos, former Group Chief Financial Officer, KMP until 29 August 2008											
<b>2009</b>	<b>96</b>	<b>111</b>	–	<b>16</b>	–	<b>14</b>	<b>979</b>	<b>1,216</b>	<b>149</b>	<b>383</b>	<b>1,748</b>
2008	826	594	–	100	–	27	–	1,547	149	464	2,160
MJ Hawker, former Chief Executive Office and Managing Director, KMP until 26 May 2008											
2008	1,561	1,565	–	45	–	(77)	1,939	5,033	174	(1,446)	3,761
DA Issa, former Chief Executive Officer, Direct Insurance, KMP until 4 July 2008											
2008	858	784	–	50	–	45	1,075	2,812	142	405	3,359
SJ Mostyn, former Group Executive, Culture & Reputation, KMP until 15 October 2007											
2008	155	112	–	21	–	2	–	290	32	87	409
MJ Pirone, former Chief Executive Officer, CGU, KMP until 29 January 2008											
2008	806	580	–	50	–	29	725	2,190	119	408	2,717

Footnotes to the remuneration of executives

- (a) For an executive who was newly appointed to the executive team during a financial year, the remuneration information provided in the table above relates to the period from the date of their appointment as KMP to 30 June. The balances are calculated based on the proportion of the year that they were KMP
- (b) As part of the IAG restructure announced on 9 July 2008, NB Hawkins and LC Murphy were appointed to the positions of Chief Financial Officer and Group Executive, Corporate Office, respectively, whilst AM Coleman, CF McLoughlin, J van der Schalk and G Venardos ceased to be KMP. The remuneration details in the table above for the executives, who ceased as KMP during a financial year, relate only to the period that they were KMP
- (c) G Dransfield was appointed as acting Chief Executive Officer, Direct Insurance for the period from July 2008 to 2 February 2009 pending the appointment of A Cornish to the role of Chief Executive Officer, Direct Insurance commencing on 2 February 2009. Given the short period of time when Mr Dransfield acted as a KMP, only his remuneration for the period between July 2008 and 2 February 2009 is disclosed. All the other detailed information that is provided for other longer serving KMP such as grants of DAR and EPR in section VII.c are not included. Mr Dransfield was granted 27,700 DAR and 46,500 EPR on 18 September 2008. He still holds these DAR and EPR.

b. TABLE NOTES

- (1) Base salary includes amounts paid in cash and salary sacrifice items such as superannuation, cars, parking and annual leave accruals, as determined in accordance with AASB 119 Employee Benefits.
- (2) Short term incentives represents the amount to be settled in cash in relation to the current performance period.
- (3) A Cornish received a payment on commencement to recognise remuneration that Mr Cornish forfeited to accept the role with IAG. NB Hawkins received an accommodation allowance in New Zealand.
- (4) Superannuation represents the employer's contributions. Refer to note 30 for details of how the plans operate.
- (5) Long service leave accruals as determined in accordance with AASB 119 Employee Benefits.
- (6) The deferred 2008 STI is granted as DAR and an allocated portion of unvested DAR is included in the total remuneration disclosure above. DAR are valued using a Black Scholes valuation model. The deferred 2009 STI will be granted in the next financial year and therefore, no value was included in the table above.
- (7) An allocated portion of unvested EPR, DAR and PAR (an allocation from the prior year's grants) is included in the total remuneration disclosure above. The year ended 30 June 2008 value included shares issued under a once off share allocation. To determine the EPR and PAR values the Monte-Carlo simulation methodology model has been applied. The valuation takes into account the exercise price of the EPR and PAR, life of the EPR and PAR, current price of IAG shares, expected volatility of the IAG share price, expected dividends, risk free interest rate, the performance of the 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. DAR are valued using a Black Scholes valuation model.
- (8) The year ended 30 June 2008 included a reversal adjustment on lapsed rights which was recognised as share based remuneration for services provided since date of grant in prior periods. These rights lapsed on MJ Hawker's ceasing employment with the IAG Group.

VII. At risk remuneration

Total remuneration for executives is comprised of 'at risk' and 'not at risk' remuneration. Fixed pay is 'not at risk', while short term incentives and share based remuneration provided through the DAR, EPR and PAR Plans is 'at risk'.

a. DETAILS OF TOTAL REMUNERATION THAT IS 'AT RISK'

EXECUTIVE	NOT AT RISK (%)	AT RISK (%)
MJ WILKINS	50	19
JP BREHENY	45	25
A CORNISH	71	7
IR FOY	57	21
NB HAWKINS	48	25
JS JOHNSON	46	23
LC MURPHY	54	17
N UTLEY	47	22
DG WEST	54	17

- Fixed pay (%)
- Cash STI (%)
- Deferred STI (%)
- LTI (%)

## b. SHORT TERM INCENTIVES

Executives may be paid an STI based on IAG's performance and their own performance. The amount of STI paid to an executive is recommended by the CEO and approved by the NRSC. The amount of STI paid to the CEO is recommended by the NRSC and approved by the board. Details of the STI for the year ended 30 June 2009 for each executive are set out in the table below.

	MAXIMUM STI OPPORTUNITY (% of fixed pay)	ACTUAL STI OUTCOME <sup>(a)</sup> (% of fixed pay)	CASH PORTION OF STI OUTCOME (% of fixed pay)	DEFERRED PORTION OF STI OUTCOME (% of fixed pay)
MJ Wilkins	150%	90%	60%	30%
JP Breheny	120%	75%	50%	25%
A Cornish	120%	84%	56%	28%
IR Foy <sup>(b)</sup>	120%	42%	28%	14%
NB Hawkins	120%	66%	44%	22%
JS Johnson	120%	75%	50%	25%
LC Murphy	120%	70%	47%	23%
N Utley	120%	75%	50%	25%
DG West	120%	75%	50%	25%

(a) For the financial year ended 30 June 2009 performance period, two thirds of the actual STI outcome for each executive will be paid in cash on 3 September 2009. One third of the STI is deferred and will be paid in the form of DAR.

(b) For the financial year ended 30 June 2009 performance period, IR Foy's actual STI outcome has been prorated to reflect his period of services in the capacity as KMP commencing 5 August 2008. The percentage shown is a percentage of fixed pay for his period of service.

The actual STI outcome detailed in the above table reflects the maximum amount of STI payable to each executive for the performance period for the year ended 30 June 2009. The minimum amount of STI payable (if the deferred portion is forfeited) is the cash portion of the STI shown in the above table. The maximum deferred value of the STI is the deferred portion shown in the same table, and the minimum deferred value of the STI (if the DAR are forfeited) is zero.

## c. SHARE BASED REMUNERATION

During the year ended 30 June 2009, the following rights vested and became exercisable:

- on 1 July 2008, 50% of DAR granted from the DAR Plan 2007/2008—series 2 vested and became exercisable;
- on 31 December 2008, the performance hurdle for the PAR Plan 2005/2006—series 4 was partially achieved (IAG's TSR ranked at 52nd percentile against other companies in the S&P/ASX100 Index) and 54% of the PAR granted vested and became exercisable.

During the year ended 30 June 2009, the PAR Plan 2003/2004—series 2 reached the last performance hurdle test. The performance hurdle was not achieved during the performance period and as a result 100% of the rights issued under the PAR Plan series 2 lapsed on 25 August 2008.

On 30 June 2009, the last performance hurdle test was completed for the PAR Plan 2004/2005—series 3. The performance hurdle was not achieved throughout the performance period and as a result 100% of the rights issued under the PAR Plan series 3 will lapse on 23 August 2009.

Apart from the above rights which vested and became exercisable or lapsed, there is no other EPR, DAR or PAR that vested or lapsed during the year.

It is not practical to provide an estimate of the maximum possible total value of share based remuneration that may vest in future years for any EPR, DAR or PAR issued up to 30 June 2009 because the value is directly linked to:

- the future IAG share price at the time of vesting;
- the continuing employment of executives with the IAG Group; and
- with respect to EPR and PAR, the future TSR performance of IAG and companies in the S&P/ASX 100 Index, and with respect to EPR the future ROE performance of IAG.

The minimum possible total value of share based remuneration is zero.

## VIII. Share based remuneration—DAR, EPR and PAR

### a. DEFERRED AWARD RIGHTS

#### i. Details of Deferred Award Rights granted

The IAG Group has issued DAR to the executives during the financial year for no consideration. Each executive who participates in the DAR Plan becomes eligible to receive one ordinary IAG share per DAR, by paying the exercise price of \$1 per tranche of DAR exercised, subject to continuing employment with the IAG Group for a period as determined by the board.

	GRANT DATE	DATE FIRST EXERCISABLE	LAST EXPIRY DATE	VALUE PER DAR AT GRANT DATE	DAR GRANTED DURING THE YEAR
				\$	Number
<b>2009</b>					
MJ Wilkins	18/09/2008	01/07/2009	18/09/2018	3.67	57,000
JP Breheny	18/09/2008	01/07/2009	18/09/2018	3.67	40,100
A Cornish	27/02/2009	02/02/2010	27/02/2019	3.26	48,908
IR Foy	18/09/2008	01/07/2009	18/09/2018	3.67	18,200
NB Hawkins	18/09/2008	01/07/2009	18/09/2018	3.67	27,300
JS Johnson	18/09/2008	01/07/2009	18/09/2018	3.67	40,400
LC Murphy	18/09/2008	01/07/2009	18/09/2018	3.67	29,800
N Utley	18/09/2008	01/07/2009	18/09/2018	3.67	85,000
DG West	18/09/2008	01/07/2009	18/09/2018	3.67	27,300
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>					
AM Coleman				-	-
CF McLoughlin				-	-
J van der Schalk				-	-
G Venardos				-	-
					<b>374,008</b>

	DAR VESTED	DAR EXERCISED
	Number	Number
ii. Details of Deferred Award Rights vested and exercised		
<b>2009</b>		
MJ Wilkins	-	-
JP Breheny	23,950	23,950
A Cornish	-	-
IR Foy	6,850	6,850
NB Hawkins	23,950	23,950
JS Johnson	28,550	28,550
LC Murphy	-	-
N Utley	18,750	18,750
DG West	-	-
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>		
AM Coleman	90,950	27,850
CF McLoughlin	73,375	20,750
J van der Schalk	63,850	-
G Venardos	104,275	30,950

\$1 per tranche of DAR is payable on exercise. Nil remains unpaid per issued share acquired. For each DAR exercised, one ordinary IAG share was issued.

b. EXECUTIVE PERFORMANCE RIGHTS

i. Details of Executive Performance Rights granted

The IAG Group issued EPR to the executives during the financial year for nil consideration. Each executive who participates in the EPR Plan becomes eligible to receive an ordinary share per EPR at no exercise price, subject to specific performance hurdles being met. Refer to section IV.b for details of the performance hurdles.

EPR allocations are divided equally into two allocations, the TSR and ROE allocation. Each allocation has two vesting conditions with the first vesting condition being continued employment with the IAG Group. Under the TSR allocation, the second vesting condition is a market related performance hurdle based on a comparison of IAG's TSR with the TSR of a peer group of entities in the S&P/ASX 100 Index. Under the EPR Plan 2008/2009—series 2 ROE allocation, the second vesting condition is based on IAG's cash ROE relative to IAG's WACC.

	GRANT DATE	DATE FIRST EXERCISABLE	LAST EXPIRY DATE	VALUE PER EPR AT GRANT DATE	EPR GRANTED DURING THE YEAR
				\$	Number
ii. Executive Performance Rights subject to total shareholder return performance hurdle					
<b>2009</b>					
MJ Wilkins	18/09/2008	30/09/2011	18/09/2018	2.53	375,000
JP Breheny	18/09/2008	30/09/2011	18/09/2018	2.53	148,750
A Cornish	27/02/2009	30/09/2011	27/02/2019	2.57	125,000
IR Foy	18/09/2008	30/09/2011	18/09/2018	2.53	100,500
NB Hawkins	18/09/2008	30/09/2011	18/09/2018	2.53	153,250
JS Johnson	18/09/2008	30/09/2011	18/09/2018	2.53	148,750
LC Murphy	18/09/2008	30/09/2011	18/09/2018	2.53	126,250
N Utley	18/09/2008	30/09/2011	18/09/2018	2.53	209,250
DG West	18/09/2008	30/09/2011	18/09/2018	2.53	166,750
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>					
AM Coleman				-	-
CF McLoughlin				-	-
J van der Schalk				-	-
G Venardos				-	-
					<b>1,553,500</b>
iii. Executive Performance Rights subject to the return on equity performance hurdle					
<b>2009</b>					
MJ Wilkins	18/09/2008	30/09/2011	18/09/2018	3.41	375,000
JP Breheny	18/09/2008	30/09/2011	18/09/2018	3.41	148,750
A Cornish	27/02/2009	30/09/2011	27/02/2019	3.15	125,000
IR Foy	18/09/2008	30/09/2011	18/09/2018	3.41	100,500
NB Hawkins	18/09/2008	30/09/2011	18/09/2018	3.41	153,250
JS Johnson	18/09/2008	30/09/2011	18/09/2018	3.41	148,750
LC Murphy	18/09/2008	30/09/2011	18/09/2018	3.41	126,250
N Utley	18/09/2008	30/09/2011	18/09/2018	3.41	209,250
DG West	18/09/2008	30/09/2011	18/09/2018	3.41	166,750
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>					
AM Coleman				-	-
CF McLoughlin				-	-
J van der Schalk				-	-
G Venardos				-	-
					<b>1,553,500</b>

iv. Details of Executive Performance Rights vested and exercised  
There were no EPR vested and exercised during the financial year.

c. PERFORMANCE AWARD RIGHTS

i. Details of Performance Award Rights granted

No allocations have been made under the PAR Plan since 2007 and no further allocations are planned.

	PAR VESTED Number	PAR EXERCISED Number
ii. Details of Performance Award Rights vested and exercised		
<b>2009</b>		
MJ Wilkins	–	–
JP Breheny	<b>54,000</b>	<b>54,000</b>
A Cornish	–	–
IR Foy	<b>11,070</b>	<b>11,070</b>
NB Hawkins	<b>24,570</b>	<b>24,570</b>
JS Johnson	<b>12,150</b>	<b>12,150</b>
LC Murphy	–	–
N Utley	–	–
DG West	–	–
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>		
AM Coleman	<b>48,600</b>	–
CF McLoughlin	<b>43,200</b>	–
J van der Schalk	<b>16,740</b>	–
G Venardos	<b>54,000</b>	–

\$1 per tranche of PAR is payable to exercise. Nil remains unpaid per issued share acquired. For each PAR exercised, one ordinary IAG share was issued.

d. ANALYSIS OF MOVEMENTS IN SHARE BASED REMUNERATION

Following is a summary of the movement during the financial year, by value, of all types of share based remuneration, including DAR, EPR and PAR by each executive:

	TOTAL VALUE OF DAR AND EPR GRANTED DURING THE YEAR <sup>(a)</sup>	TOTAL VALUE OF DAR, EPR AND PAR EXERCISED DURING THE YEAR <sup>(b)</sup>	TOTAL VALUE OF DAR, EPR AND PAR LAPSED DURING THE YEAR <sup>(c)</sup>
	\$000	\$000	\$000
<b>2009</b>			
MJ Wilkins	<b>2,436</b>	–	–
JP Breheny	<b>1,031</b>	<b>286</b>	–
A Cornish	<b>874</b>	–	–
IR Foy	<b>664</b>	<b>66</b>	<b>(139)</b>
NB Hawkins	<b>1,010</b>	<b>178</b>	<b>(181)</b>
JS Johnson	<b>1,032</b>	<b>150</b>	<b>(84)</b>
LC Murphy	<b>859</b>	–	–
N Utley	<b>1,555</b>	<b>69</b>	–
DG West	<b>1,091</b>	–	–
<b>Total</b>	<b>10,552</b>	<b>749</b>	<b>(404)</b>
Executives who ceased as key management personnel			
AM Coleman	–	<b>102</b>	<b>(279)</b>
CF McLoughlin	–	<b>76</b>	–
J van der Schalk	–	–	<b>(130)</b>
G Venardos	–	<b>114</b>	<b>(326)</b>
<b>Total</b>	–	<b>292</b>	<b>(735)</b>

(a) The value of DAR and EPR granted in the year is the fair value of the DAR and EPR at grant date using Black Scholes and Monte-Carlo simulation models respectively. The total value of the DAR and EPR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2009 to 30 June 2013).

(b) DAR that vested on 1 July 2008 and PAR that vested on 31 December 2008 were exercised in the financial year. The value of DAR and PAR exercised is based on the weighted average share price which was \$3.67 for the year ended 30 June 2009.

(c) Rights lapsed during the financial year only in relation to the PAR Plan 2003/2004—series 2 which did not meet the performance hurdle.

(d) G Dransfield was appointed as acting Chief Executive Officer, Direct Insurance for the period from July 2008 to 2 February 2009 pending a permanent appointment to the position. A Cornish commenced as Chief Executive Officer, Direct Insurance on 2 February 2009. Given the short period of time during which Mr Dransfield acted as a KMP, none of the DAR, EPR and PAR movements during the year is disclosed as the DAR, EPR and PAR granted to him did not relate to his role as a KMP.

Related parties of executives cannot participate in the DAR, EPR and PAR Plans.

## B. NON-EXECUTIVE DIRECTORS

### 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
- consistent with IAG's values.

### II. Significant changes to non-executive director remuneration

#### a. BOARD COMPOSITION

During the financial year, IAG announced the following changes to the composition of the IAG Board:

- PJ Twyman was appointed as non-executive director on 9 July 2008; and
- ND Hamilton and RA Ross retired on 31 August 2008.

#### b. FEES

During the financial year, the IAG Board determined that there should be no general increase to non-executive director fees, however the following changes have impacted the fees payable to some directors:

- on 10 November 2008, the Audit Committee and Risk Management & Compliance Committee (RMCC) were replaced with a single committee, the Audit, Risk Management & Compliance Committee (ARMCC). Given the significant workload and responsibilities for members of the ARMCC, the fees for this committee were set at a rate that is higher than those payable to members of the Audit Committee or RMCC. Although the fees for the ARMCC were set at a higher rate, the overall fees paid to non-executive directors have reduced as a result of the reduction in the number of committees.

### III. Remuneration structure

Non-executive director remuneration consists of three components, being:

- board fees (payable as cash and IAG shares);
- subsidiary board and committee fees; and
- superannuation.

The aggregate limit of remuneration is approved by shareholders and is currently \$2,750,000 per annum. This limit was approved by shareholders at the 2007 annual general meeting. The aggregate annual remuneration is inclusive of employer superannuation contributions paid by IAG on behalf of non-executive directors.

BOARD/COMMITTEE	ROLE	FEE
a. IAG BOARD AND COMMITTEE FEES		
IAG Board	Chairman	<b>\$450,000</b>
	Director	<b>\$150,000</b>
IAG Audit, Risk Management & Compliance Committee (commenced 10 November 2008)	Chairman	<b>\$54,000</b>
	Member	<b>\$27,000</b>
IAG Audit Committee (ceased 9 November 2008)	Chairman	<b>\$36,000</b>
	Member	<b>\$18,000</b>
IAG Risk Management & Compliance Committee (ceased 9 November 2008)	Chairman	<b>\$36,000</b>
	Member	<b>\$18,000</b>
IAG Nomination, Remuneration & Sustainability Committee	Chairman	<b>\$32,500</b>
	Member	<b>\$16,250</b>

#### b. NON-EXECUTIVE DIRECTORS' SHARE PLAN

The IAG Board had previously adopted a policy that each non-executive director should take a minimum of 20% and up to a maximum of 90% of their annual board fee (at the time shares are allocated), on a fee sacrifice basis, in the form of IAG shares provided under the Non-executive Directors' Share Plan, which was approved by shareholders on 13 November 2002. IAG shares were purchased by a trustee on market and allocated to directors in December each year. Non-executive directors could elect to restrict the disposal of these shares for a minimum period of one year and up to 10 years or until the director retires. No other share based remuneration is available to non-executive directors.

As a result of the government's policy on the taxation of employee share schemes, the IAG Board has decided there will be no further offers under the Non-executive Directors' Share Plan and adopted a shareholding policy that requires non-executive directors to attain a shareholding with a value approximately equal to their IAG Board fee within a period of three years from the date of the directors' appointment to the IAG Board. For current directors the three year period will commence from 17 August 2009, being the date the IAG Board adopted the policy.

#### c. SUPERANNUATION

IAG pays superannuation contributions on directors' fees into a superannuation fund nominated by the director. Directors' fees and superannuation contributions are paid monthly.

IAG has a Non-executive Directors' Expenses Policy. Under this policy IAG reimburses expenses reasonably incurred by the non-executive directors in connection with the discharge of their duties.

d. NON-EXECUTIVE DIRECTORS' SERVICE ON SUBSIDIARY BOARDS

A summary of non-executive directors' service on subsidiary company boards and the fees payable is set out in the following table:

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
JA Strong	Insurance Manufacturers of Australia Pty Limited	Chairman	<b>\$195,000</b>
PM Colebatch <sup>(a)</sup>	IAG UK Holdings Limited	Chairman	<b>\$97,258</b>
HA Fletcher <sup>(b)</sup>	IAG New Zealand Limited	Chairman	<b>\$85,402</b>
YA Allen	Mutual Community General Insurance Proprietary Limited	Chairman	<b>\$25,000</b>

(a) This amount was paid to PM Colebatch in British pounds and has been converted to Australian dollars using the average exchange rate for the year.

(b) This amount was paid to HA Fletcher in New Zealand dollars and has been converted to Australian dollars using the average exchange rate for the year.

#### IV. Performance

Directors' performance is subject to evaluation by the chairman annually by discussion between the chairman and the individual director. In these discussions, the individual directors also evaluate the chairman's performance. Performance measures for directors considered by the chairman and board include:

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

The NRSC has responsibility for coordinating the board's review of the chairman's performance.

#### V. Remuneration details

The table below provides remuneration details of the non-executive directors (including those non-executive directors who retired during the current year) on the IAG Board.

Mr PJ Twyman was appointed as a director on 9 July 2008.

The following directors were appointed to the IAG Board during the prior year ended 30 June 2008 (the prior year remuneration is not annualised amount and as such is not comparable to the current year remuneration):

- HA Fletcher (appointed 1 September 2007); and
- A Hynes (appointed 1 September 2007).

For a director who was newly appointed to the IAG Board during the financial year, the remuneration information provided in the table below relates to the period from the date of their appointment to 30 June.

	SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL
	IAG Board fees received as cash	Other boards and committees fees	Super-annuation	Retirement benefits			IAG Board fees received as IAG shares	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
JA Strong								
<b>2009</b>	<b>231</b>	<b>195</b>	<b>52</b>	–	–	–	<b>225</b>	<b>703</b>
2008	238	195	58	–	–	–	213	704
YA Allen								
<b>2009</b>	<b>128</b>	<b>87</b>	<b>14</b>	–	–	–	<b>30</b>	<b>259</b>
2008	128	66	13	–	–	–	28	235
PM Colebatch								
<b>2009</b>	<b>75</b>	<b>115</b>	<b>15</b>	–	–	–	<b>75</b>	<b>280</b>
2008	79	115	15	–	–	–	71	280
HA Fletcher, appointed 1 September 2007								
<b>2009</b>	<b>77</b>	<b>109</b>	<b>16</b>	–	–	–	<b>73</b>	<b>275</b>
2008	46	90	13	–	–	–	79	228
A Hynes, appointed 1 September 2007								
<b>2009</b>	<b>120</b>	<b>24</b>	<b>16</b>	–	–	–	<b>30</b>	<b>190</b>
2008	108	14	12	–	–	–	18	152
BM Schwartz								
<b>2009</b>	<b>108</b>	<b>39</b>	<b>14</b>	–	–	–	<b>45</b>	<b>206</b>
2008	112	50	13	–	–	–	43	218
PJ Twyman, appointed 9 July 2008								
<b>2009</b>	<b>125</b>	<b>20</b>	<b>15</b>	–	–	–	<b>22</b>	<b>182</b>

	SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOY- MENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL
	IAG Board fees received as cash	Other boards and committees fees	Super- annuation	Retirement benefits			IAG Board fees received as IAG shares	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
DIRECTORS RETIRED DURING THE YEAR								
ND Hamilton, retired on 31 August 2008								
<b>2009</b>	<b>3</b>	<b>7</b>	<b>3</b>	<b>248</b>	–	–	<b>23</b>	<b>284</b>
2008	27	43	13	–	–	–	128	211
RA Ross, retired on 31 August 2008								
<b>2009</b>	<b>13</b>	<b>9</b>	<b>3</b>	<b>232</b>	–	–	<b>13</b>	<b>270</b>
2008	79	52	18	–	–	–	71	220
JA Astbury, retired on 31 August 2007								
2008	17	8	3	184	–	–	4	216
GA Cousins, retired on 31 August 2007								
2008	17	3	2	169	–	–	4	195

## VI. Retirement benefits

IAG decided to freeze the operation of the non-executive director retirement benefits scheme adopted by IAG in 2001 with effect from 1 September 2003.

The terms of the previous, but now discontinued, retirement benefits scheme provided for:

- any non-executive director of IAG who had completed five years' continuous service with IAG (including service with any subsidiaries) at the date of retirement, a retirement benefit equivalent to the last three years' directors' fees, employer superannuation contributions, committee fees and fees for extra services received from IAG and its subsidiaries;
- a pro rata retirement benefit for non-executive directors who have completed at least three years' service but less than five years' service at the date of their retirement, based on a specified formula; and
- no retirement benefit to be paid to a non-executive director who had served for a period of less than three years.

IAG determined that the frozen retirement benefits would be calculated as follows:

- non-executive directors joining the board from 1 September 2003 would have no retirement benefit;
- for each non-executive director as at 31 August 2003 who had served a minimum of three years, the retirement benefit was assessed as if they had retired at 31 August 2003; and
- for a non-executive director with less than three years of service at 31 August 2003, a retirement benefit was assessed as if they had three years of service as at that date, and then reduced on a pro rata basis based on their uncompleted period of service as a proportion of three years. The retirement benefit was not subsequently payable to such a non-executive director if they had less than three years of service as a non-executive director at the date of their retirement.

Retirement benefits of \$248,000 and \$232,000 were paid to ND Hamilton and RA Ross respectively, following their retirement from the board on 31 August 2008.

The following table sets out the frozen retirement benefits of the only director who held office on 31 August 2003 and who has continued in office since then.

DIRECTOR	RETIREMENT BENEFIT
	\$000
JA Strong	295

On retirement, directors may also be entitled to be paid a benefit from their company funded superannuation. Such a benefit would be in addition to the director's frozen retirement benefit.

## C. OTHER BENEFITS

Remuneration does not include premiums paid by IAG for an insurance contract covering current and former directors' and executives' liabilities and legal expenses incurred in respect of the relevant office, as the insurance policies do not specify premiums paid in respect of individual directors and executives and the terms of contract specifically prohibit the disclosure of the premium paid. Insurance products provided by the IAG Group are also available to all directors and executives on the same terms and conditions available to other employees.

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

FOR SECTION 205G OF THE CORPORATIONS ACT 2001

	Shares held directly <sup>(a)</sup>	Shares held indirectly <sup>(b)</sup>
<b>A. HOLDINGS OF ORDINARY SHARES</b>		
JA Strong	<b>14,241</b>	<b>344,288</b>
YA Allen	<b>1,666</b>	<b>27,345</b>
PM Colebatch	–	<b>46,692</b>
HA Fletcher	<b>1,666</b>	<b>69,137</b>
A Hynes	–	<b>27,242</b>
BM Schwartz	<b>1,912</b>	<b>39,399</b>
PJ Twyman	<b>1,666</b>	<b>44,780</b>
MJ Wilkins	–	<b>101,666</b>

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

(b) These 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.

**B. HOLDING OF RESET PREFERENCE SHARES**

No director and their related parties had any interest in reset preference shares at reporting date.

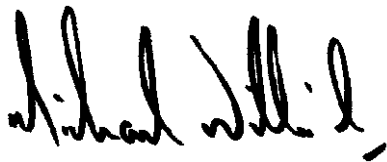
**C. HOLDING OF RESET EXCHANGEABLE SECURITIES**

No director and their related parties had any interest in reset exchangeable securities of IAG Finance (New Zealand) Limited at reporting date.

**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 class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 21st day of August 2009 in accordance with a resolution of the directors.



**Michael Wilkins**  
Director