

# 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 2010 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 66—Independent non-executive director**

##### INSURANCE INDUSTRY EXPERIENCE

James Strong was appointed as chairman of IAG from August 2001 to 26 August 2010. He was a member of the IAG Nomination, Remuneration & Sustainability Committee. James was also chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd, until 26 August 2010.

##### OTHER BUSINESS EXPERIENCE

James is also chairman of Woolworths Limited, Kathmandu Holdings Limited and the Australia Council for the Arts. He is a director of Qantas Airways Limited and the Australian Grand Prix Corporation and is a member of the Nomura Australia Advisory Board.

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 until 26 August 2010;
- Qantas Airways Limited since 1 July 2006; and
- Kathmandu Holdings Limited since November 2009.

#### **BRIAN (BM) SCHWARTZ**

**FCA, AM, age 57—Independent non-executive director and deputy chairman**

##### INSURANCE INDUSTRY EXPERIENCE

Brian Schwartz was appointed as a director of IAG in January 2005. He was appointed Chairman of IAG on 26 August 2010. He is a member and former chairman of the IAG Nomination, Remuneration & Sustainability Committee. Brian is also Chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd, from 26 August 2010.

##### OTHER BUSINESS EXPERIENCE

Brian is a non-executive director of Brambles Limited and Westfield Group and is a consultant to Investec Bank (Australia) Ltd. He is also the deputy chairman of the board of Football Federation Australia Limited.

Brian was the chief executive of Investec Bank (Australia) Ltd from 2005 to 2009. Previously, he was with Ernst & Young Australia from 1979 to 2004 becoming its chief executive in 1998. He was a member of Ernst & Young's global board and managing partner of the Oceania region.

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

Directorships of other listed companies held in past three years:

- Brambles Limited since 13 March 2009;
- Westfield Group since 6 May 2009; and
- IAG Finance (New Zealand) Limited since 26 August 2010.

## **MANAGING DIRECTOR**

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

**BCom, MBA, DLI, FCA, age 53—Managing Director and Chief Executive Officer**

#### INSURANCE INDUSTRY EXPERIENCE

Michael Wilkins was appointed as Managing Director and Chief Executive Officer in May 2008 after holding the position of Chief Operating Officer and director of IAG since November 2007.

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

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:

- 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 46—Independent non-executive director**

#### INSURANCE INDUSTRY EXPERIENCE

Yasmin Allen was appointed as a director of IAG in November 2004. She was appointed chairman of the IAG Nomination, Remuneration & Sustainability Committee from 26 August 2010 and a member (and former chairman) of the IAG Audit, Risk Management & Compliance Committee. Yasmin served six years on the board of Export Finance and Insurance Corporation.

#### OTHER BUSINESS EXPERIENCE

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Cochlear Limited, chairman of Macquarie Specialised Asset Management 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:

- Cochlear Limited since 2 August 2010.

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

**BE (Hons), BSc, DBA, SM, age 65—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. He is also a member of the Board of Trustees of the LGT Group Foundation and the Prince of Liechtenstein Foundation.

Directorships of other listed companies held in past three years:

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

**HUGH (HA) FLETCHER****BSc/BCom, MCom (Hons), MBA, age 62—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 the deputy chairman of the Reserve Bank of New Zealand, non-executive director of 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;
- Rubicon Limited since 23 March 2001;
- Vector Limited since 25 May 2007; and
- IAG Finance (New Zealand) Limited since 31 August 2008.

**ANNA (A) HYNES****BSc (Hons), MBA, age 51—Independent non-executive director**

## INSURANCE INDUSTRY EXPERIENCE

Anna Hynes was appointed as a director of IAG in September 2007. She is a member of the IAG Nomination, Remuneration & Sustainability Committee from 26 August 2010 and was formerly a member of the IAG Audit, Risk Management & Compliance Committee. Anna was formerly a non-executive director of Promina Group Limited.

## OTHER BUSINESS 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 and member of the Executive Council at the University of Technology Business School, Sydney.

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

Directorships of other listed companies held in past three years:

- none.

**PHILIP (PJ) TWYMAN****BSc, MBA, FAICD, age 66—Independent non-executive director**

## INSURANCE INDUSTRY EXPERIENCE

Philip Twyman was appointed as a director of IAG in July 2008. He was appointed chairman of the IAG Audit, Risk Management & Compliance Committee from 26 August 2010.

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.

Overall, Philip has had over 20 years of both board and executive level general insurance experience.

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

## OTHER BUSINESS 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.

**DIRECTOR WHO RETIRED AFTER THE END OF THE FINANCIAL YEAR**

The following director retired after the end of the financial year:

- James Strong retired on 26 August 2010.

**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 NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE		IAG AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE		IAG SUB COMMITTEE	
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
Total number of meetings held		13		4		6		5
JA Strong	13	13	4	4	–	–	4	4
YA Allen	13	13	4	4	6	6	–	–
PM Colebatch	13	13	4	4	–	–	–	–
HA Fletcher	13	13	–	–	6	6	–	–
A Hynes	13	13	–	–	6	6	–	–
BM Schwartz	13	13	4	4	–	–	2	2
PJ Twyman	13	11	–	–	6	4	–	–
MJ Wilkins	13	13	–	–	–	–	5	5

## 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

IAG's Australian and New Zealand businesses, which represented over 88% of the Group's gross written premium (GWP) in the current financial year, have registered further encouraging improvement in their collective underlying performance, as benefits from IAG's refined corporate strategy continue to be realised.

The Group's reported insurance margin of 7.0%, however, fell well short of expectations held at the outset of the year, and compares to 7.1% in the prior year.

The Group's performance was adversely affected by the following significant developments during the second half of the current financial year:

- two extreme weather events in March 2010, in Melbourne and Perth, culminating in a combined net claims cost to the Group of \$210 million and which contributed to a total natural peril claim cost of \$463 million (2009—\$451 million), compared to allowances of \$350 million; and
- a marked deterioration in claim experience in the United Kingdom (UK) business, largely owing to adverse bodily injury claim trends in the motor portfolio, which has resulted in recognition of a charge of \$367 million.

Other impacts during the year were:

- reserve releases of \$228 million (excluding the UK motor strengthening in the second half of the current financial year) compared to \$215 million in the prior year;
- a modestly favourable credit spread impact of \$33 million, compared to a loss of \$13 million in the prior year; and
- an adverse running yield effect in excess of \$50 million, owing to lower average interest rates.

Net profit after tax attributable to equity holders of the Company for the current financial year was \$91 million, compared to a profit of \$181 million in the prior year. In addition to the items listed above, the decline in reported profit has been materially impacted by two further UK related items. First, the inability to tax effect the \$367 million charge. Second, an impairment charge totalling \$87 million in respect of goodwill and intangibles. These negative effects were partially offset by an increase in the investment income on equity holders' funds, driven by improved equity market returns.

Underlying GWP growth of 3.8% was achieved in the current financial year, in line with guidance of 3%–5%. Reported GWP of \$7,782 million declined by 0.8% due to the impact of the stronger Australian dollar on the translation of premiums derived offshore, a \$114 million reduction owing to the non-renewal of major accounts in CGU, and the divestment of non-core UK operations that contributed \$157 million of GWP in the prior year.

The IAG Board has determined to pay a final dividend of 4.5 cents per ordinary share (fully franked) (2009—final dividend of 6.0 cents per ordinary share). This brings the full year fully franked dividend to 13.0 cents (2009—10.0 cents per ordinary share).

Highlights in respect of divisional performance for the current financial year are as follows:

**A. AUSTRALIA DIRECT**

- The Group's largest business grew GWP by 8.1% and delivered an improved insurance margin of 16.9% (2009—12.0%).
- The strong underwriting performance reflects increased rates, some volume growth and the benefits from cost saving initiatives.

**B. AUSTRALIA INTERMEDIATED (CGU)**

- CGU, which accounted for approximately 29% of Group GWP, continued to see steady improvement in its underlying performance.
- The reported insurance margin for the current financial year of 6.6% compares favourably with the 2.2% reported in the prior year. This reflects CGU's disciplined focus on rebuilding the business' fundamentals.

**C. NEW ZEALAND**

- New Zealand produced a significantly improved result in the current financial year, with an insurance margin of 14.7% (2009—0.0%).
- The result was driven by the benefits of corrective action undertaken by management, particularly in respect of pricing and risk selection, assisted by lower natural peril and large loss claims.

**D. UNITED KINGDOM**

- The performance of the UK business in the current financial year was heavily impacted by the recognition of a \$367 million charge during the second half, owing primarily to adverse bodily injury claim trends.
- A comprehensive program of remedial actions is being implemented with the aim of restoring the business to profitability in the next financial year.

**E. ASIA**

- The Group's established businesses in the region produced strong operational performances.
- Further encouraging progress has been made in the division's strategy to access new, high growth markets with a full launch of the new Indian joint venture expected before the end of calendar year 2010.

**REVIEW OF FINANCIAL CONDITION**

**A. FINANCIAL POSITION**

The total assets of the IAG Group as at 30 June 2010 were \$20,446 million compared to \$19,360 million at 30 June 2009. The increase primarily reflects the impact of the \$550 million of investment assets backing the reset exchangeable securities (RES) being brought on balance sheet, coupled with the investment of the Group's strong operating cash flow for the period.

The total liabilities of the IAG Group as at 30 June 2010 were \$15,790 million compared to \$14,524 million at 30 June 2009. The increase is mainly attributable to:

- the \$550 million of RES being included in interest bearing liabilities; and
- a \$437 million increase in outstanding claims driven by a combination of the reserve strengthening in respect of the UK, and the gross provisions held for claims arising from the March 2010 storms in both Melbourne and Perth.

The decrease in IAG equity from \$4,836 million at 30 June 2009 to \$4,656 million at 30 June 2010 largely reflects:

- dividend payments totalling \$301 million; partially offset by
- net earnings attributable to equity holders of \$91 million.

**B. CASH FROM OPERATIONS**

The net cash inflows from operating activities increased by \$701 million to \$1,115 million (2009—\$414 million). The improvement was mainly due to a decrease in net claims payments in the current year, coupled with an increase in premium receipts.

**C. CAPITAL MANAGEMENT**

The IAG Group's capital position improved during the year with a minimum capital requirement (MCR) multiple of 1.92 at 30 June 2010. This reflected the combined effect of:

- eligibility of the \$550 million of RES as Tier 1 capital following the amendments made to its governing terms and conditions;
- the reduction in the Group's maximum event retention following the March 2010 storms in Melbourne and Perth;
- the decrease in retained earnings, after allowing for dividends paid and accrued, during the year; and
- higher investment risk charges, primarily associated with the Group's increased weighting towards growth assets within equity holders' funds.

The IAG Group's probability of adequacy for the outstanding claims provision remains at least 90% as at 30 June 2010, with risk margins increasing slightly to 19.4% of the net discounted central estimate.

At 30 June 2010, IAG's key wholly owned operating insurance subsidiaries held 'very strong' 'AA-' ratings from Standard & Poor's (S&P). At the Group level, IAG retains an 'A+' rating.

The IAG Group's debt to total tangible capitalisation at 30 June 2010 stood at 36.0%, which is around the middle of the 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 2010 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. Nonetheless, the Group is confident of delivering further improvement in operating performance in 2011. Its guidance for the year ending 30 June 2011 is:

- underlying GWP growth of 3%–5%; and
- an insurance margin in the range of 10.5%–12.5%.

This assumes:

- losses from natural perils in line with budgeted allowances of \$435 million;
- no material movements in foreign exchange rates or investment markets;
- lower net reserve releases than the current financial year (excluding the UK); and
- a modest contribution from the UK business.

The Group is now two years into its three year turnaround strategy. Consequently, IAG's focus for the 2011 financial year will be to continue the momentum the Group has gained from the significant changes made over the past two years. This means remaining committed to IAG's three key strategic priorities, namely:

- to continue to deliver a strong performance in the home markets of Australia and New Zealand;
- to pursue selective general insurance growth opportunities in the chosen markets; and
- to drive operational performance and accountability.

## DIVIDENDS

Details of dividends paid or determined by the Company are set out in note 11.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- on 9 December 2009, the reset exchangeable securities (RES) holders approved amendments to the RES terms and conditions. In accordance with the amended terms and conditions, the RES were brought onto the IAG Group's balance sheet. This is in line with IAG's commitment to actively manage and enhance its capital structure. Refer to note 23 to the financial statements for details of the transaction; and
- on 19 November 2009, the IAG Group completed the investment in a 26% strategic stake in SBI General Insurance Company Limited and paid 5.4 billion Indian rupees (equivalent to \$126 million). Refer to note 26 to the financial statements for details of the transaction.

## EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year is set out in note 38. This includes:

- the IAG Board determination to pay a final dividend;
- acquisition of an underwriting agency in Australia; and
- executive team changes.

## 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 its statutory duties.

The directors have considered the non audit services provided during the financial year by KPMG and, in accordance with written advice provided by resolution of the Audit, Risk Management & Compliance Committee (ARMCC), are satisfied that the provision of those non audit services by the 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 20.6% of total audit fees (refer to note 7 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 34 and forms part of the directors' report for the year ended 30 June 2010.

## **INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

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

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

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

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

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

## **ENVIRONMENTAL REGULATION**

The 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.

## REMUNERATION REPORT

IAG's remuneration report contains a remuneration overview, which provides a snapshot of IAG's remuneration objectives and structure, the key actions IAG have taken during the year, and a voluntary disclosure of the actual remuneration received by the Managing Director & Group Chief Executive Officer (Group CEO). This is followed by the detailed remuneration report, which provides all disclosures required by the Corporations Act and relevant accounting standards.

The IAG Board is confident that IAG's remuneration policies are in line with community expectations and continue to support the Group's financial and strategic goals, which ultimately benefit shareholders, customers, employees and the community.

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### A. REMUNERATION OVERVIEW

The remuneration overview provides a snapshot of IAG's remuneration objectives and structure, the key actions IAG have taken during the year.

#### I. Executive remuneration structure

At IAG, remuneration practices have been designed to achieve four key objectives:

- to reward superior performance;
- to align remuneration with returns delivered to IAG's shareholders;
- to attract and retain high quality people; and
- to strike a balance between rewarding short term and long term performance.

The key executive remuneration components which support these objectives, including the target remuneration mix for the financial year ended 30 June 2010 (FY10), are summarised below. Details of the actual remuneration mix for FY10, for the Group CEO and executives, are included in section B.II.f Remuneration mix on page 29.

REMUNERATION COMPONENT		STRATEGIC PURPOSE	TARGET REMUNERATION MIX	
			Group CEO	Executive
Fixed pay	<ul style="list-style-type: none"> <li>■ Base salary and superannuation</li> </ul>	<ul style="list-style-type: none"> <li>■ Attracts and retains high quality people</li> </ul>		
Short term incentive (STI)—cash	<ul style="list-style-type: none"> <li>■ 2/3 STI outcome paid as cash in September</li> </ul>	<ul style="list-style-type: none"> <li>■ Rewards superior performance and strikes a balance between short and long term results</li> <li>■ Aligns remuneration with shareholder interests</li> <li>■ Retains high quality people</li> </ul>	25%	29%
STI—deferred	<ul style="list-style-type: none"> <li>■ 1/3 STI outcome is deferred for up to 3 years subject to service conditions</li> <li>■ Provided as a grant of rights over IAG shares in the form of deferred award rights (DAR)</li> <li>■ The actual value of the rights will depend on future share price</li> </ul>			
Long term incentive (LTI)	<ul style="list-style-type: none"> <li>■ Provided as a grant of rights over IAG shares in the form of executive performance rights (EPR)</li> <li>■ 3–5 year performance period</li> <li>■ Dual performance hurdle—total shareholder return (TSR) and return on equity (ROE)</li> <li>■ If performance hurdles are not achieved, no value will be received from the LTI allocation</li> </ul>	<ul style="list-style-type: none"> <li>■ Aligns remuneration with longer term financial performance</li> <li>■ Aligns remuneration with shareholder interests</li> <li>■ Retains high quality people</li> </ul>	12.5%	12%
			37.5%	36%
Mandatory shareholding	<ul style="list-style-type: none"> <li>■ Executives required to hold a mandatory level of IAG shares</li> </ul>	<ul style="list-style-type: none"> <li>■ Aligns remuneration with shareholder interests</li> </ul>		

IAG's executive remuneration structure is designed to align reward with performance. Total reward outcomes for target performance are positioned at the middle of the market with total reward outcomes for superior performance positioned above the middle of the market. As such higher total reward outcomes for superior performance are provided.

## II. Actual remuneration for the Managing Director & Group CEO (Mr Michael Wilkins)

In an effort to clarify the value of the executives' pay during FY10, a voluntary disclosure of the actual remuneration earned by the Group CEO has been included.

The value of the actual remuneration contained in the table below is not the same as the value contained in the table of executive remuneration in the detailed report. This is because the detailed remuneration report has been prepared in accordance with the statutory reporting requirements, and as such includes actual remuneration and an estimate of future share based remuneration that might be earned under incentive plans, if performance hurdles are met. Because the statutory remuneration table contains estimates as well as actual payments it may be difficult to ascertain what IAG's executives have been paid in the year.

This section illustrates the actual remuneration of the Group CEO to give a clearer picture of what he has received. This is designed to assist shareholders in seeing how IAG's remuneration policy translates into practice for the Group CEO and takes into consideration that grants of share rights will only deliver value to executives if performance hurdles are met.

COMPONENT	ACTUAL REMUNERATION FOR THE GROUP CEO	STATUTORY DISCLOSURE
Fixed pay	The base salary and superannuation paid to Mr Wilkins was \$1,850,000.	Base salary = \$1,848,000 Superannuation = \$38,000  The statutory disclosure includes the value of accrued annual leave.
STI—cash	Based on an assessment of the Group's FY10 performance against its balanced scorecard, Mr Wilkins was awarded an STI of 41% of his available STI.  Two thirds of this STI (\$764,667) will be paid to Mr Wilkins as cash in September 2010.	\$765,000  The statutory disclosure has been rounded.
STI—deferred	The remaining one third of Mr Wilkins' FY10 STI will be paid as share rights, equating to 112,200 DAR. These will become exercisable in deferred tranches as follows: <ul style="list-style-type: none"> <li>■ on 1 July 2011, 56,100 DAR will vest (50% of allocation);</li> <li>■ on 1 July 2012, 33,660 DAR vest (30% of allocation); and</li> <li>■ on 1 July 2013, 22,440 DAR vest (20% of allocation).</li> </ul> The actual value of the share rights will depend on the future share price.	\$282,000  The value included in the statutory disclosure represents an accounting valuation of the DAR granted to Mr Wilkins as part of his FY08 and FY09 STI. The value of the FY10 deferred STI has not been included in the statutory disclosure as the DAR will be granted in the next financial year.
LTI	As approved by shareholders at IAG's 2009 annual general meeting, Mr Wilkins was granted 790,600 EPR in November 2009. He will not receive any value from this allocation until 1 July 2012, and will only receive value from it if the following challenging performance hurdles are met: <ul style="list-style-type: none"> <li>■ in September 2012, up to half of the allocation (between zero and 395,300 EPR) will vest depending on IAG's ROE performance. For all of this portion to vest, the Group's average ROE measured over a three year period must be 1.8 times higher than the Group's cost of capital; and</li> <li>■ between September 2012 and September 2014 (at three test points during this period), the remaining half of the allocation (between zero and 395,300 EPR) will vest depending on IAG's TSR performance. For all of this portion to vest, the Group's TSR must rank in the top quartile when compared against the returns delivered by other companies in the top 50 ASX industrials on a test date.</li> </ul> If the performance hurdles are not achieved, Mr Wilkins will receive no value from his LTI allocation. For Mr Wilkins, no LTI from previous allocations vested or became exercisable during the year. As such, there was no financial gain received.	\$1,330,000  The value included in the statutory disclosure represents an accounting valuation of EPR granted to Mr Wilkins over the period from 29 November 2007 to 30 June 2010.

The remuneration of the other executives and the directors is contained in the detailed remuneration report.

### III. Key remuneration actions taken during the year

The IAG Board committee which oversees IAG's remuneration practices—the Nomination, Remuneration & Sustainability Committee (NRSC)—remains very mindful of the executive remuneration issues under debate and review in the broader community.

The NRSC endeavours to ensure at all times that the remuneration policies balance IAG's performance objectives while remaining in step with the community and shareholder expectations. While stability in remuneration structure is important, where modifications can be made to better align interests and drive performance they will be actively considered and implemented. The IAG Board took the following actions during the year:

- there were no fixed pay increases for executives for the year ended 30 June 2010;
- there were no fee increases for directors for the year ended 30 June 2010. Director fees were last increased on 1 July 2007;
- IAG's remuneration policies and NRSC charter were reviewed and updated to ensure they comply with new regulatory requirements, including Australian Prudential Regulation Authority (APRA) Prudential Standards covering the governance of remuneration;
- the balanced scorecard (BSC) approach and the link to STI outcomes has been strengthened. The BSC approach begins with the board and is cascaded through the Group so every employee is aligned with the goals and objectives of the Group;
- a share holding policy for non-executive directors was introduced. It requires them to hold IAG shares with a value approximately equal to their IAG Board fee within a three year period of them joining the board. For current directors the three year period commenced from 17 August 2009. This arrangement has replaced the Non-executive Director Share Plan, under which no further offers will be made; and
- an employee share plan was introduced which allows employees in Australia, New Zealand and the United Kingdom to purchase IAG shares using pre tax salary contributions with IAG contributing 10% towards the cost of the IAG shares.

### IV. Changes implemented since 1 July 2010

#### a. BOARD DISCRETION TO ADJUST DEFERRED STI AND LTI

Deferred STI and LTI arrangements were revised to comply with regulatory requirements. The changes to deferred STI and LTI arrangements are effective from 1 July 2010 and include the following:

- a review point will be implemented one year after the allocation of DAR, prior to the vesting date, to ensure that the basis of the STI payment remains sound;
- the board may adjust the number of DAR granted; and
- the DAR and EPR terms will be amended to provide the board with the discretion to adjust these components of remuneration based on an assessment of business performance or risks faced by the Group or a part of the Group.

#### b. DIRECTOR FEE REVIEW—EFFECTIVE FROM 1 JULY 2010

At its meeting on 24 August 2010, the IAG Board considered a report from PricewaterhouseCoopers (PwC) and recommendations from a management committee in relation to the fees payable to directors. Based on the PwC report and recommendations, and given that most director fees have not been increased since July 2007, the IAG Board approved the following adjustments to director fees effective from 1 July 2010:

- IAG Board director fee from \$150,000 to \$156,000 per annum;
- IAG Board chairman's fee from \$450,000 to \$468,000 per annum;
- NRSC member fee from \$16,250 to \$17,500 per annum; and
- NRSC chairman's fee from \$32,500 to \$35,000 per annum.

The changes above represent a 4% increase to the IAG Board director and IAG Board chairman's fees and a 7.7% increase to fees payable for service on the NRSC. The IAG Board agreed with management's recommendation that a more substantial increase for service on the NRSC was warranted due to the increased workload of this committee arising from the implementation of new APRA prudential standards concerning remuneration governance and because the fee for the NRSC has not been adjusted since 1 July 2006.

The fees payable to members and the chairman of the Audit, Risk Management & Compliance Committee, which were set in November 2008 have not been adjusted.

After applying these adjustments the total fees payable to directors will remain within the \$2,750,000 per annum aggregate limit which was approved by shareholders at the 2007 annual general meeting.

#### c. ADJUSTMENT TO LTI CASH ROE PERFORMANCE HURDLE—APPLICABLE TO THE LTI GRANTS IN THE YEAR COMMENCING 1 JULY 2010

On 24 August 2010, the IAG Board approved a recommendation by the NRSC in relation to the cash ROE performance hurdle that will apply to 50% of the EPR allocation made in the year commencing 1 July 2010 (FY11). The NRSC's recommendation was based on an independent review of the cash ROE performance hurdle completed by Ernst & Young and its own assessment of how the performance hurdle should be set to ensure that superior long term performance is appropriately rewarded. The cash ROE performance hurdle which will be measured over the three year period from 1 July 2010 to 30 June 2013, will be as follows:

- 0% vesting, if cash ROE is less than 20% higher than the Group's weighted average cost of capital (WACC);
- 20% vesting if cash ROE is 20% higher than WACC;
- 40% vesting if cash ROE is 30% higher than WACC;
- 60% vesting if cash ROE is 40% higher than WACC;
- 80% vesting if cash ROE is 50% higher than WACC; and
- 100% vesting if cash ROE is 60% higher than WACC.

No change has been made to the TSR performance hurdle which will apply to the other 50% of the EPR allocation.

The IAG Board believes the changes to the EPR Plan are consistent with prudent risk management and balance the goals of rewarding superior performance and the creation of long term value for shareholders, with the need to ensure that executives are motivated by the EPR Plan.

## B. REMUNERATION REPORT—AUDITED

This report outlines IAG's remuneration policies and practices and provides details of the remuneration of the senior executives responsible for managing the IAG Group and of the IAG Board of Directors (including the Group CEO). This group is known as IAG key management personnel (KMP). The following senior executives and directors are included in this report.

### SENIOR EXECUTIVES

NAME	POSITION	DATE JOINED EXECUTIVE TEAM
MJ Wilkins	Managing Director and Chief Executive Officer	26/11/2007
JP Breheny	Chief Executive Officer, Asia	20/03/2006
A Cornish	Chief Executive Officer, Direct Insurance	02/02/2009
IR Foy	Chief Executive Officer, New Zealand	05/08/2008
NB Hawkins	Chief Financial Officer	01/03/2006
JS Johnson	Chief Executive Officer, The Buzz	13/02/2006
LC Murphy	Group Executive, Corporate Office	03/12/2007
N Utley	Managing Director, UK	09/01/2007
DG West	Chief Executive Officer, CGU	29/01/2008

### NON-EXECUTIVE DIRECTORS

NAME	IAG BOARD	COMMITTEE
JA Strong	IAG Board—Chairman	NRSC—Member
YA Allen	IAG Board—Director	ARMCC—Chairman NRSC—Member
PM Colebatch	IAG Board—Director	NRSC—Member
HA Fletcher	IAG Board—Director	ARMCC—Member
A Hynes	IAG Board—Director	ARMCC—Member
BM Schwartz	IAG Board—Deputy Chairman	NRSC—Chairman
PJ Twyman	IAG Board—Director	ARMCC—Member

The above table provides the board and committee composition as at 30 June 2010. Following the retirement of JA Strong (Chairman) on 26 August 2010, changes were made to the board composition. BM Schwartz was appointed Chairman and subsequent changes were made to committee membership which are outlined on pages 11 to 13.

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

## I. Governance

The board approves the Group Remuneration Policy and approves the remuneration paid to directors based on the recommendations of a management committee and advice from external consultants. The NRSC is a sub-committee of the board, which assists the board in relation to remuneration by:

- providing assurance to the board relating to the effectiveness, integrity and compliance of IAG's remuneration policies and practices; and
- ensuring the overall remuneration policy and approach supports the strategic goals of IAG.

A copy of the NRSC's charter is available at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

The Group CEO, Group Executive, Corporate Office and human resources executives regularly attend NRSC meetings and assist the committee in its deliberations.

The NRSC receives reports from various independent consultants including PwC and Ernst and Young concerning remuneration for executives and directors and related matters.

### a. IMPACT OF REGULATORY CHANGES

The NRSC has completed a review of IAG's executive remuneration policies and practices against the Prudential Standard released by APRA in November 2009. The NRSC's view is that IAG's executive remuneration policy and practices are aligned with the Prudential Standard.

The government's changes to the taxation of employee share schemes has limited the effectiveness of salary or fee sacrifice share plans. The IAG Board has decided to make no further offers under the Non-executive Directors' Share Plan and instead 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 commenced 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 Director and Executive Remuneration in Australia. The NRSC will review IAG's Remuneration Policy in light of any such changes.

b. 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, DAR and performance award rights); and
- any trading in IAG securities without prior approval of the NRSC.

A copy of IAG's Security Trading Policy is available at [www.iag.com.au/about/governance/codes](http://www.iag.com.au/about/governance/codes).

**II. Executive remuneration**

a. FIXED PAY
Fixed pay is defined as base salary plus superannuation. Executives can determine the mix of base salary and superannuation in line with legislative requirements. 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. For Australian based executives, market positioning is determined by reference to a number of peer groups, including the largest 50 companies in the S&P/ASX 100 Index and financial services companies that are among the largest 50 companies in the S&P/ASX 100 Index. Relevant local market peer groups are used for executives located overseas.

i. Fixed pay for the year ended 30 June 2010

There were no fixed pay increases for executives for the year ended 30 June 2010.

b. SHORT TERM INCENTIVE
Short term incentives (STI) are used to motivate and reward performance typically over a one year period. Annually, 2/3 of STI is paid as cash and 1/3 is paid as deferred award rights (DAR) which is referred to as deferred STI later in this report. DAR are rights over issued shares held by a trustee. If an executive remains employed by the IAG Group, the DAR will become exercisable in tranches as follows: 50% (after Year 1); 30% (after Year 2); and 20% (after Year 3).

i. Short term incentive performance measures for the year ended 30 June 2010

IAG uses a balanced scorecard to set goals and measure performance. This ensures that assessment of performance is viewed broadly and ensures that performance is measured against all criteria necessary for success.

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.

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). The methods of assessment have been selected as they can be objectively measured and verified. In the year ended 30 June 2010, the financial targets have been focused on profitability and return on risk based capital. The following table details the weighting of different performance measures for the total STI for the Group CEO and executives.

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

Examples of the STI financial performance measures for the year ended 30 June 2010 are detailed below. The individual measures will differ for each executive.

FINANCIAL MEASURES	EXAMPLES OF TARGETS
Group financial target	Return on equity (ROE)
Division or business target	Return on risk based capital

ii. Short term incentive outcomes for the year ended 30 June 2010

Actual short term incentive payments made to executives for the year ended 30 June 2010 reflect the degree of achievement against the balanced scorecard measures.

The amount of STI paid to the Group CEO and executives is recommended by the NRSC based on their balanced scorecard performance and approved by the IAG Board. Details of the STI for the year ended 30 June 2010 for each executive is set out in the table below.

For the financial year ended 30 June 2010 performance period, two thirds of the actual STI outcome for each executive will be paid in cash. One third of the STI is deferred and will be allocated in the form of DAR.

	MAXIMUM STI OPPORTUNITY		ACTUAL STI OUTCOME	CASH PORTION OF STI OUTCOME	DEFERRED PORTION OF STI OUTCOME
	(% of fixed pay)	(% of maximum)	(% of fixed pay)	(TWO THIRDS OF OUTCOME)	(ONE THIRD OF OUTCOME)
				(% of fixed pay)	(% of fixed pay)
MJ Wilkins	150	41	62	41	21
JP Breheny	120	60	72	48	24
A Cornish	120	72	86	57	29
IR Foy	120	70	84	56	28
NB Hawkins	120	52	62	41	21
JS Johnson	120	52	62	41	21
LC Murphy	120	52	62	41	21
N Utley	120	–	–	–	–
DG West	120	65	78	52	26

iii. Cash portion of STI outcome for the year ended 30 June 2010

Two thirds of the STI is paid as cash in September 2010. The dollar values are contained in remuneration details.

iv. Deferred portion of STI outcome for the year ended 30 June 2010

One third of the STI outcome is paid in the form of DAR. As the DAR will not be allocated until September 2010, the value of the deferred portion of the STI outcome for the year ended 30 June 2010 is not included in the 2010 disclosure. This value will be included in the disclosure for the year ending 30 June 2011.

v. Deferred award rights

Deferred award rights (DAR) are rights over issued shares held by a trustee. DAR are issued to executives during the financial year for nil consideration to the value of their deferred STI amount. Each executive who participates in the DAR Plan becomes eligible to receive one IAG ordinary share per DAR, by paying the exercise price of \$1 per tranche of DAR exercised, subject to continuing employment with the IAG Group for a period as determined by the board. When executives cease employment in special circumstances, such as redundancy, share rights vest on cessation of employment.

Details of the DAR granted, vested and exercised during the financial year are detailed below. The DAR granted during the year reflect the deferred portion of the STI outcome for the year ended 30 June 2009.

No DAR lapsed during the year. Note 30 to the financial statements sets out further details of the DAR Plan.

	GRANT DATE	DATE FIRST EXERCISABLE	LAST EXPIRY DATE	VALUE PER DAR AT GRANT DATE	DAR GRANTED DURING THE YEAR	DAR VESTED DURING THE YEAR	DAR EXERCISED DURING THE YEAR	TOTAL VALUE OF DAR GRANTED DURING THE YEAR <sup>(a)</sup>	TOTAL VALUE OF DAR EXERCISED DURING THE YEAR <sup>(b)</sup>
				\$	Number	Number	Number	\$000	\$000
<b>2010</b>									
MJ Wilkins	24/11/2009	01/07/2010	24/11/2016	3.77	158,200	28,500	28,500	<b>596</b>	<b>107</b>
JP Breheny	25/09/2009	01/07/2010	25/09/2016	3.60	58,800	69,670	–	<b>212</b>	–
A Cornish	25/09/2009	01/07/2010	25/09/2016	3.60	28,500	24,454	24,454	<b>103</b>	<b>92</b>
IR Foy	25/09/2009	01/07/2010	25/09/2016	3.60	20,900	21,835	21,835	<b>75</b>	<b>82</b>
NB Hawkins	25/09/2009	01/07/2010	25/09/2016	3.60	53,300	63,270	63,270	<b>192</b>	<b>238</b>
JS Johnson	25/09/2009	01/07/2010	25/09/2016	3.60	58,800	72,580	37,330	<b>212</b>	<b>140</b>
LC Murphy	25/09/2009	01/07/2010	25/09/2016	3.60	46,600	14,900	14,900	<b>168</b>	<b>56</b>
N Utley	25/09/2009	01/07/2010	25/09/2016	3.60	76,100	87,125	87,125	<b>274</b>	<b>328</b>
DG West	25/09/2009	01/07/2010	25/09/2016	3.60	65,900	13,650	–	<b>237</b>	–
					567,100	395,984	277,414	<b>2,069</b>	<b>1,043</b>

(a) The value of DAR granted in the year is the fair value of the DAR at grant date using Black Scholes model. The total value of the DAR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2010 to 30 June 2012).

(b) DAR that vested on 1 July 2009 or before were exercised in the financial year. The value of DAR exercised is based on the weighted average share price which was \$3.76 for the year ended 30 June 2010.

### c. LONG TERM INCENTIVE

Long term incentive (LTI) is a grant of rights over IAG shares in the form of executive performance rights (EPR) 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.

i. Long term incentive performance measures for the year ended 30 June 2010

EPR grants are determined annually and are based on an assessment of market benchmarks, performance, leadership capability and strategic input.

The EPR Plan has two performance hurdles—return on equity (ROE) and relative total shareholder return (TSR). 50% of each allocation is subject to the ROE hurdle and 50% is subject to the TSR hurdle.

- ROE is measured relative to IAG's weighted average cost of capital (WACC). For share rights granted in the year ended 30 June 2010, the ROE hurdle is cash ROE (previously normalised ROE) to align with the reporting of IAG's financial performance to the external market; and
- TSR is a measure of the relative return IAG delivers to its shareholders compared to other entities. For those share rights allocated after 30 June 2009, TSR is measured against other companies in the top 50 industrials within the S&P/ASX 100 Index.

The EPR performance hurdles are aligned to the Group's strategic financial targets.

The share 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 WACC and from series 2 onwards, cash ROE is measured relative to IAG's WACC.

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

	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	<p>&lt;50th percentile—0% vesting                      =50th percentile—50% vesting                      &gt;=75th percentile—100% vesting</p> <p>The percentage of EPR which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile.</p>	<p><b>NORMALISED ROE PERFORMANCE</b></p> <p>&gt;1.6 x WACC                      =1.5 x WACC                      =1.4 x WACC                      =1.3 x WACC                      &lt;1.3 x WACC</p>	<p><b>VESTING SCALE</b></p> <p>100% vesting                      80% vesting                      50% vesting                      20% vesting                      0% vesting</p>
Vesting schedule—from 1 July 2008	<p>&lt;50th percentile—0% vesting                      =50th percentile—50% vesting                      &gt;=75th percentile—100% vesting</p> <p>The percentage of EPR which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile.</p>	<p><b>CASH ROE PERFORMANCE</b></p> <p>&gt;1.8 x WACC                      =1.7 x WACC                      =1.6 x WACC                      =1.5 x WACC                      &lt;1.5 x WACC</p>	<p><b>VESTING SCALE</b></p> <p>100% vesting                      80% vesting                      50% vesting                      20% vesting                      0% vesting</p>
Vesting 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.		

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

PLAN	EPR PLAN 2007/2008—SERIES 1		EPR PLAN 2008/2009—SERIES 2		EPR PLAN 2009/2010—SERIES 3	
	TSR	Normalised ROE	TSR	Cash 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	25/09/2009 24/11/2009	25/09/2009 24/11/2009
Base date	30/09/2007	n/a	30/09/2008	n/a	30/09/2009	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	3–5 years from grant date	1 July 2009–30 July 2012
IAG share price at base date (\$)	5.31	n/a	4.10	n/a	3.78	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 ended 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	3rd, 4th and 5th anniversary of the base date	One test following board approval of financial results for period ending 30 June 2012
First test day	30/09/2010	30/06/2010	30/09/2011	30/06/2011	30/09/2012	30/06/2012
Last test day	30/09/2012	30/06/2010	30/09/2013	30/06/2011	30/09/2014	30/06/2012
Performance hurdle achievement	n/a	n/a	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	25/09/2016 24/11/2016	25/09/2016 24/11/2016

ii. LTI granted year ended 30 June 2010

The EPR granted during the year will have no value unless the performance hurdles outlined above, which require superior financial performance over at least a three year period, are achieved. Details of the EPR granted during the year are set out below.

No EPR vested or were exercised or lapsed during the year. Note 30 of the financial statements sets out further details of the EPR Plan.

	GRANT DATE	EPR GRANTED DURING THE YEAR <sup>(a)</sup> Number	EPR GRANTED DURING THE YEAR <sup>(b)</sup> Number	TOTAL VALUE OF EPR GRANTED DURING THE YEAR <sup>(c)</sup> \$000
<b>2010</b>				
MJ Wilkins	24/11/2009	395,300	395,300	<b>2,467</b>
JP Breheny	25/09/2009	146,950	146,950	<b>876</b>
A Cornish	25/09/2009	155,850	155,850	<b>929</b>
IR Foy	25/09/2009	93,150	93,150	<b>555</b>
NB Hawkins	25/09/2009	151,400	151,400	<b>902</b>
JS Johnson	25/09/2009	146,950	146,950	<b>876</b>
LC Murphy	25/09/2009	124,650	124,650	<b>743</b>
N Utley	25/09/2009	190,100	190,100	<b>1,133</b>
DG West	25/09/2009	164,750	164,750	<b>982</b>
		1,569,100	1,569,100	<b>9,463</b>

(a) EPR granted during the year subject to total shareholder return performance hurdle. Rights granted on 25 September 2009 and 24 November 2009 have a grant date value of \$2.48 and \$2.59 respectively. All rights granted during the year are first exercisable 30 September 2012.

(b) EPR granted during the year subject to a return on equity performance hurdle. Rights granted on 25 September 2009 and 24 November 2009 have a grant date value of \$3.48 and \$3.65 respectively. All rights granted during the year are first exercisable 30 June 2012.

(c) The value of EPR granted in the year is the fair value of the EPR at grant date using Black Scholes and Monte Carlo simulation models respectively. The total value of the EPR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2010 to 30 June 2014).

(d) All EPR granted on 25 September 2009 and 24 November 2009 have a last expiry date of 25 September 2016 and 24 November 2016 respectively.

iii. LTI granted prior to 2008

#### PERFORMANCE AWARD RIGHTS PLAN

Prior to the introduction of the EPR Plan, LTI was granted in the form of performance award rights (PAR). 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.

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

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 =50% 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.
Vesting—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.

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.

PLAN	PAR PLAN 2004/2005— SERIES 3	PAR PLAN 2005/2006— SERIES 4	PAR PLAN 2006/2007— SERIES 5
Grant date	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 base date <sup>(b)</sup>	3–5 years from base date	3–5 years from base date
IAG share price at base date (\$)	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
First test day	28/09/2007	30/09/2008	30/09/2009
Last test day	30/06/2009	30/06/2010	30/09/2011
Performance hurdle achievement	Not achieved, 100% of PAR lapsed on 23 August 2009	Partially achieved, 54% of PAR are exercisable, the remaining 46% lapsed on 23 August 2010	n/a
Last exercise date (continuing employees only)	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 ended on 30 June that immediately precedes the grant date are announced to the Australian Securities Exchange (ASX).

On 30 June 2009, the PAR Plan 2004/2005—series 3 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 3 lapsed on 23 August 2009.

On 30 June 2010, the PAR Plan 2005/2006—series 4 reached the last performance hurdle test. During the previous performance hurdle tests, 54% of the rights vested in the financial year ended 30 June 2009. The remaining 46% of the rights issued under the PAR Plan—series 4 lapsed on 23 August 2010.

No PAR vested or were exercised during the year. Note 30 to the financial statements sets out further details of the PAR Plan.

	PAR LAPSED Number	TOTAL VALUE OF PAR LAPSED DURING THE YEAR <sup>(a)</sup> \$000
<b>2010</b>		
MJ Wilkins	–	–
JP Breheny	–	–
A Cornish	–	–
IR Foy	16,000	<b>57</b>
NB Hawkins	40,000	<b>144</b>
JS Johnson	30,000	<b>108</b>
LC Murphy	–	–
N Utley	–	–
DG West	–	–
	<b>86,000</b>	<b>309</b>

(a) Rights lapsed during the financial year only in relation to the PAR Plan 2004/2005—series 3 which did not meet the performance hurdle.

#### d. MANDATORY SHAREHOLDING REQUIREMENT

All executives are required to hold a proportion of their remuneration as IAG shares. The Group CEO 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.

i. Tracking against mandatory shareholding requirement for the year ended 30 June 2010

Details of number of IAG shares held by executives at 30 June 2010, including tracking against the mandatory shareholding requirement, are set out below.

NAME	IAG SHAREHOLDING AS AT 30 JUNE 2010 <sup>(a)</sup>	ACHIEVEMENT OF MANDATORY SHAREHOLDING REQUIREMENT	EFFECTIVE DATE OF MANDATORY SHAREHOLDING REQUIREMENT <sup>(b)</sup>
	Number of shares	%	
MJ Wilkins	130,166	14	26/05/2012
JP Breheny	147,870	69	01/09/2010
A Cornish	24,454	11	02/02/2013
IR Foy	40,243	30	05/08/2012
NB Hawkins	150,415	68	01/09/2010
JS Johnson	125,478	59	01/09/2010
LC Murphy	14,900	8	03/12/2011
N Utley	1,408,549	582	01/09/2010
DG West	13,650	6	29/01/2012

(a) Includes executive's directly held shares and DAR vested and unexercised at 30 June. It includes entities controlled, jointly controlled or significantly influenced by the executive. Excluded are shares held by the executives' domestic partner and dependants.

(b) JP Breheny, NB Hawkins, JS Johnson and N Utley were appointed to the executive team prior to the introduction of the mandatory shareholding requirement. These executives are required to accumulate and hold IAG shares with a value that is equal to their base salary within three years from 1 September 2007.

ii. Return to IAG shareholders

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

	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	YEAR ENDED 30 JUNE 2010
Closing share price (\$)	6.01	5.35	5.70	3.47	3.51	<b>3.41</b>
Dividend paid (cents)	26.50	42.00	29.50	22.50	10.00	<b>13.00</b>
Earnings per share (cents)	49.31	47.66	32.79	(14.11)	9.32	<b>4.39</b>

e. REMUNERATION DETAILS

i. 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 prior year) for the IAG Group. 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	(1)	SHORT TERM EMPLOYMENT BENEFITS (2) (3)		POST EMPLOYMENT BENEFITS (4)		OTHER LONG TERM EMPLOYMENT BENEFITS (5)	TERMINATION BENEFITS	SUB TOTAL (EXCLUDES SHARE BASED PAYMENT)	SHARE BASED PAYMENT (SUBJECT TO CONTINUING EMPLOYMENT AND/OR PERFORMANCE HURDLES) (6) (7)		TOTAL
	Base salary	Short term incentive	Other	Super-annuation	Retirement benefits	Long service leave accruals			Value of deferred short term incentive	Value of rights/shares granted	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Executives (including executive director)											
MJ Wilkins, Managing Director and Chief Executive Officer											
<b>2010</b>	<b>1,848</b>	<b>765</b>	–	<b>38</b>	–	<b>12</b>	–	<b>2,663</b>	<b>282</b>	<b>1,330</b>	<b>4,275</b>
2009	1,842	1,110	–	65	–	15	–	3,032	82	744	3,858
JP Breheny, Chief Executive Officer, Asia											
<b>2010</b>	<b>795</b>	<b>396</b>	–	<b>50</b>	–	<b>7</b>	–	<b>1,248</b>	<b>182</b>	<b>702</b>	<b>2,132</b>
2009	746	413	–	94	–	12	–	1,265	145	500	1,910
A Cornish, Chief Executive Officer, Direct Insurance, KMP since 2 February 2009 <sup>(a)</sup>											
<b>2010</b>	<b>846</b>	<b>504</b>	–	<b>23</b>	–	<b>3</b>	–	<b>1,376</b>	<b>119</b>	<b>423</b>	<b>1,918</b>
2009	378	200	343	10	–	1	–	932	27	71	1,030
IR Foy, Chief Executive Officer, New Zealand, KMP since 5 August 2008 <sup>(a)</sup>											
<b>2010</b>	<b>464</b>	<b>290</b>	–	<b>73</b>	–	–	–	<b>827</b>	<b>70</b>	<b>339</b>	<b>1,236</b>
2009	396	134	–	73	–	–	–	603	46	178	827
NB Hawkins, Chief Financial Officer											
<b>2010</b>	<b>851</b>	<b>354</b>	–	<b>25</b>	–	<b>4</b>	–	<b>1,234</b>	<b>151</b>	<b>664</b>	<b>2,049</b>
2009	771	374	10	66	–	31	–	1,252	127	467	1,846
JS Johnson, Chief Executive Officer, The Buzz											
<b>2010</b>	<b>761</b>	<b>343</b>	–	<b>22</b>	–	<b>7</b>	–	<b>1,133</b>	<b>188</b>	<b>650</b>	<b>1,971</b>
2009	786	413	–	47	–	27	–	1,273	162	445	1,880
LC Murphy, Group Executive, Corporate Office											
<b>2010</b>	<b>674</b>	<b>291</b>	–	<b>25</b>	–	<b>5</b>	–	<b>995</b>	<b>119</b>	<b>430</b>	<b>1,544</b>
2009	634	327	–	50	–	6	–	1,017	43	212	1,272
N Utley, Managing Director, UK <sup>(b)</sup>											
<b>2010</b>	<b>854</b>	–	<b>789</b>	<b>107</b>	–	–	–	<b>1,750</b>	<b>282</b>	<b>863</b>	<b>2,895</b>
2009	994	562	–	140	–	–	–	1,696	190	541	2,427
DG West, Chief Executive Officer, CGU											
<b>2010</b>	<b>888</b>	<b>481</b>	–	<b>25</b>	–	<b>6</b>	–	<b>1,400</b>	<b>140</b>	<b>584</b>	<b>2,124</b>
2009	881	463	–	50	–	7	–	1,401	39	296	1,736
Executives who ceased as key management personnel <sup>(c)(d)</sup>											
G Dransfield, former Acting Chief Executive Officer, Direct Insurance, KMP only for the period from 9 July 2008 to 2 February 2009											
2009	314	200	–	29	–	11	–	554	–	–	554
AM Coleman, former Chief Risk Officer and Group Actuary, KMP until 29 August 2008											
2009	124	100	–	14	–	19	887	1,144	134	334	1,612
CF McLoughlin, former Group Executive, Strategy, People & Reputation, KMP until 30 September 2008											
2009	161	337	–	21	–	(15)	815	1,319	100	293	1,712
J van der Schalk, former Chief Executive Officer, Asset Management and Reinsurance, KMP until 29 August 2008											
2009	63	69	–	13	–	20	820	985	69	278	1,332
G Venardos, former Group Chief Financial Officer, KMP until 29 August 2008											
2009	96	111	–	16	–	14	979	1,216	149	383	1,748

ii. 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) On 27 July 2010 IAG announced, IR Foy currently Chief Executive Officer of IAG's New Zealand business will become the Chief Executive Officer of IAG's UK business 1 September 2010, succeeding N Utley. JS Johnson currently Chief Executive Officer of The Buzz will succeed IR Foy as Chief Executive Officer of New Zealand, and Group Executive, Corporate Office, LC Murphy will be appointed Chief Executive Officer of The Buzz.  
N Utley will cease to be KMP from 31 August 2010. The remuneration details in the table above are only in respect of remuneration for services provided during the current financial year.
- (c) AM Coleman, CF McLoughlin, J van der Schalk and G Venardos ceased to be KMP during the year ended 30 June 2009. 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.
- (d) G Dransfield was appointed as acting Chief Executive Officer, Direct Insurance for the period from a 9 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 9 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 is not included.

iii. Table notes

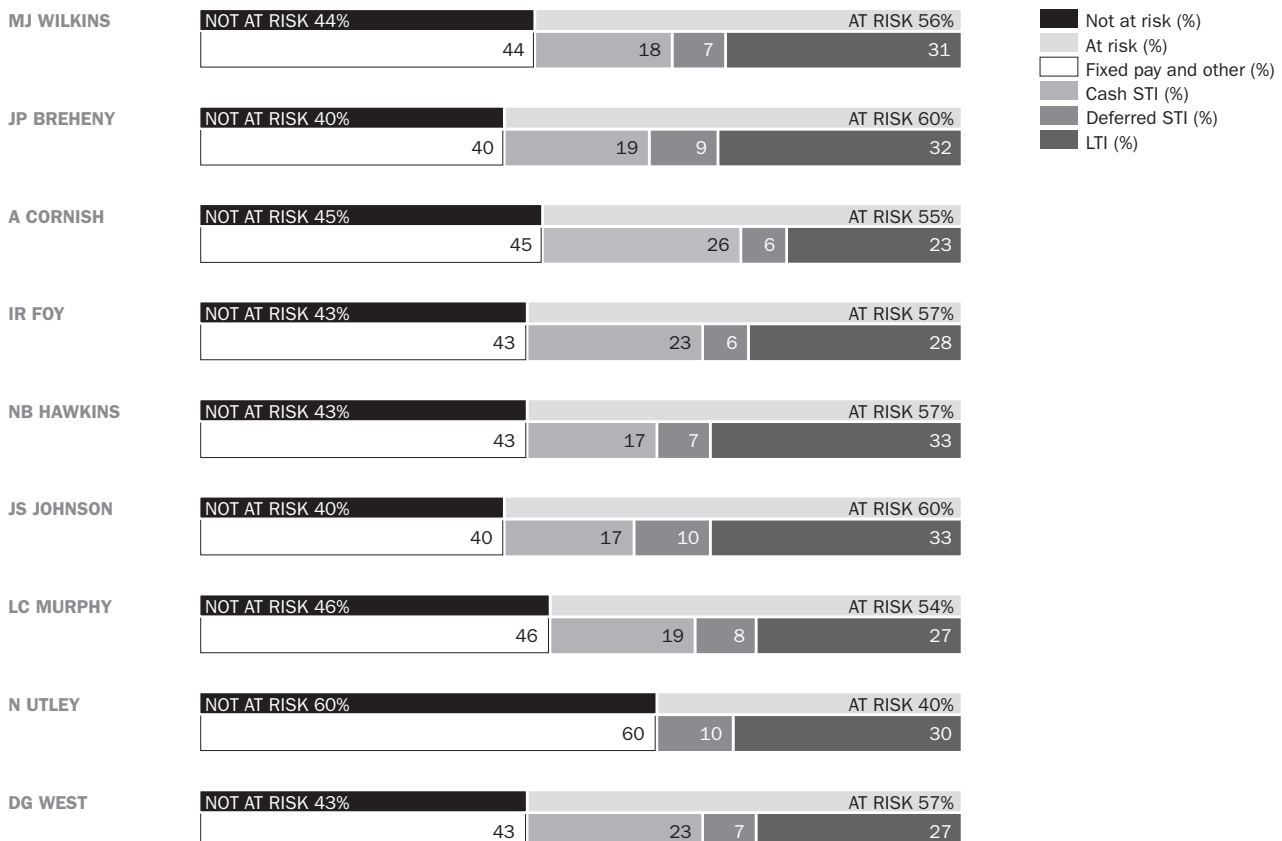
The executives who joined the executive team during the previous year ended 30 June 2009 were A Cornish (commenced 2 February 2009) and IR Foy (commenced 5 August 2008).

- (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) In the prior year, 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 prior to his appointment as Chief Financial Officer. In July 2008, a retention incentive of \$789,000 was put in place for N Utley to ensure that he remained with the business when IAG exited UK mass market operations. This payment was due subject to N Utley continuing in employment and was paid in the current year.
- (4) Superannuation represents the employer's contributions. Refer to note 31 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 and 2009 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 2010 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.

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.

f. REMUNERATION MIX

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 are 'at risk'. 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.



g. EXECUTIVE 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
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. An additional 6 months of fixed pay is payable if IAG invokes a restraint clause.
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.

i 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 executives based in Australia, the minimum benefit under the retrenchment policy is 11 weeks of base salary and the maximum benefit that can be received is 87 weeks of base salary. The maximum benefit is payable to employees with service of 25 years or more.

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

ii 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.

iii 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.

**III. Non-executive director remuneration**

a. STRUCTURE AND POLICY

i. Remuneration policy

The principles that underpin IAG's approach to remuneration for non-executive directors are that remuneration should:

- be sufficiently competitive to attract and retain a high calibre of non-executive director; and
- create alignment between the interests of non-executive directors and shareholders.

ii. Significant changes to non-executive director remuneration

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:

- 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. From 1 December 2009, director fees have been paid as cash rather than as cash and shares. However, the board has 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 commenced from 17 August 2009, being the date the IAG Board adopted the policy. Details of directors' shareholdings are outlined on page 33.

iii. Remuneration structure

Non-executive director remuneration consists of three components, which are:

- board fees (payable as cash and IAG shares prior to 1 December 2009);
- superannuation; and
- subsidiary board and committee fees.

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.

**IAG BOARD AND COMMITTEE FEES**

BOARD/COMMITTEE	ROLE	ANNUAL FEE
IAG Board	Chairman	\$450,000
	Director	\$150,000
IAG Audit, Risk Management & Compliance Committee (commenced 10 November 2008)	Chairman	\$54,000
	Member	\$27,000
IAG Nomination, Remuneration & Sustainability Committee	Chairman	\$32,500
	Member	\$16,250
The following committees ceased 9 November 2008:		
IAG Audit Committee	Chairman	\$36,000
	Member	\$18,000
IAG Risk Management & Compliance Committee	Chairman	\$36,000
	Member	\$18,000

**SUPERANNUATION**

IAG pays superannuation contributions on director fees into a superannuation fund nominated by the director. Director 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.

**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	\$195,000
BM Schwartz <sup>(a)</sup>	Insurance Manufacturers of Australia Pty Limited	Director	\$131,000
PM Colebatch <sup>(b)</sup>	IAG UK Holdings Limited	Chairman	\$80,699
HA Fletcher <sup>(c)</sup>	IAG New Zealand Limited	Chairman	\$83,634
YA Allen	Mutual Community General Insurance Proprietary Limited	Director	\$16,250

(a) The annual fee for BM Schwartz is inclusive of committee fees.

(b) 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. PM Colebatch resigned as Chairman of IAG UK Holdings Limited on 30 November 2009.

(c) 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.

b. REMUNERATION DETAILS

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

The following director was appointed to the IAG Board during the prior year ended 30 June 2009 (the prior year remuneration is not an annualised amount and as such is not comparable to the current year remuneration):

- Mr PJ Twyman (appointed 9 July 2008).

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 committee fees	Super-annuation	Retirement benefits				
	\$000	\$000	\$000	\$000	\$000	\$000	IAG Board fees received as IAG shares \$000	\$000
JA Strong								
<b>2010</b>	<b>400</b>	<b>195</b>	<b>14</b>	–	–	–	<b>94</b>	<b>703</b>
2009	231	195	52	–	–	–	225	703
YA Allen								
<b>2010</b>	<b>144</b>	<b>87</b>	<b>14</b>	–	–	–	<b>13</b>	<b>258</b>
2009	128	87	14	–	–	–	30	259
PM Colebatch								
<b>2010</b>	<b>119</b>	<b>50</b>	<b>15</b>	–	–	–	<b>31</b>	<b>215</b>
2009	75	115	15	–	–	–	75	280
HA Fletcher								
<b>2010</b>	<b>107</b>	<b>111</b>	<b>16</b>	–	–	–	<b>43</b>	<b>277</b>
2009	77	109	16	–	–	–	73	275
A Hynes								
<b>2010</b>	<b>138</b>	<b>27</b>	<b>16</b>	–	–	–	<b>13</b>	<b>194</b>
2009	120	24	16	–	–	–	30	190
BM Schwartz								
<b>2010</b>	<b>137</b>	<b>71</b>	<b>14</b>	–	–	–	<b>19</b>	<b>241</b>
2009	108	39	14	–	–	–	45	206
PJ Twyman, appointed 9 July 2008								
<b>2010</b>	<b>136</b>	<b>27</b>	<b>14</b>	–	–	–	<b>16</b>	<b>193</b>
2009	125	20	15	–	–	–	22	182
Retired directors								
ND Hamilton, retired on 31 August 2008								
2009	3	7	3	248	–	–	23	284
RA Ross, retired on 31 August 2008								
2009	13	9	3	232	–	–	13	270

c. RETIREMENT BENEFITS

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

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.

A retirement benefit of \$295,000 will be paid to JA Strong following his retirement from the board on 26 August 2010.

IV. 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

### A. HOLDINGS OF ORDINARY SHARES

	FOR SECTION 205G OF THE CORPORATIONS ACT 2001	
	Shares held directly <sup>(a)</sup>	Shares held indirectly <sup>(b)</sup>
JA Strong	14,546	344,288
YA Allen	1,666	27,345
PM Colebatch	–	46,692
HA Fletcher	35,190	36,500
A Hynes	–	40,242
BM Schwartz	1,953	70,042
PJ Twyman	–	57,780
MJ Wilkins	124,700	101,666

- (a) This represents the relevant interest of each director in ordinary shares issued by the Company, as notified by the directors to the ASX in accordance with section 205G of the Corporations Act 2001 until the date the financial report is signed. Trading in IAG shares is covered by the restrictions which limit the ability of an IAG director to trade in the 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.

### PRESENTATION OF PARENT FINANCIAL STATEMENTS

Parent entity financial statements have been included in the consolidated financial statements in this financial report for the year ended 30 June 2010. The Company is the kind of company referred to in the class order 10/654 dated 26 July 2010 issued by the Australian Securities & Investments Commission.

Signed at Sydney this 26th day of August 2010 in accordance with a resolution of the directors.



**Michael Wilkins**  
Director