



Shareholder questions

Executive remuneration

Shareholders want to understand how executive remuneration is determined.

Our goal is to align executive pay with the interests of our customers, community and shareholders. To do this, we assess both financial and non-financial performance. We also include a risk assessment and behavioural gateway. Our approach ensures results are delivered in a way that is sustainable and benefits all IAG stakeholders.

Executives receive a combination of fixed pay, short term incentives and long term incentives.

We reviewed fixed pay in the 2019 financial year and determined that executive fixed pay levels are appropriate. As a result, fixed pay will not change for the 2020 financial year.

Short term incentive outcomes consider the financial and non-financial performance of the company and the performance of the individual executive. This year's outcomes reflected the further improvement in underlying business performance. Payments under our short term incentive ranged from 47 – 72% of the maximum achievable and averaged 60%.

Our long term incentive plan rewards long term performance and has two hurdles: cash return on equity, and relative total shareholder return. This year we reviewed the cash return on equity hurdle. We considered the impact of monetary policies on the global cost of capital, our changing capital base and the need to ensure the hurdle is sufficiently stretching.

We have now increased the vesting range for this hurdle to 1.4 to 1.9 times the weighted average cost of capital for future awards. We are confident this change will embed an appropriate level of stretch.

To align the interests of non-executive directors and executives with shareholders, we continue to require them to hold a significant number of IAG shares after a set period. All those who are required to meet the requirement did so.

Climate action and environment

Shareholders want to understand IAG's approach to investing in and underwriting industries that contribute to climate change.

Over the years, IAG has taken a strong public stand on both the perils of climate change, and the need to act to mitigate its effects.

This is not surprising, as a large part of our business involves insuring our customers against loss from weather events. We acknowledge that shareholders also have legitimate concerns about climate change. We share those concerns, which go to the heart of our business as an insurer. We see first-hand the devastating impact that a changing climate has on our customers, and on our communities.

Our focus on climate change goes to the heart of our purpose to make your world a safer place.

To address the risks that arise from the changing climate we work with local communities and with all levels of government to mitigate the risks of extreme weather events, increase preparation before an event, and build resilience to help speed up recovery after.

Like many of the world's leading organisations – and almost all of its governments – we have committed to play our part to deliver on the Paris Agreement, and to limit climate change to two degrees above pre-industrial levels.

We are a member of several local and global organisations which deal with climate change and its impacts. We have used our knowledge of risk to instigate the establishment and ongoing work of the Australian Business Roundtable for Disaster Resilience & Safer Communities and Resilient New Zealand.

We have science-based carbon emission reduction targets for our operations, consistent with the commitments in the Paris Agreement.

In 2019, IAG reduced greenhouse gas emissions by 22.6%, exceeding our target to reduce carbon emissions by 20% by 2020. IAG has also been carbon neutral since 2012.

Investment portfolio

Our approach to our investment portfolio supports our climate change objectives. Under our investment mandates, we no longer invest in companies which are predominantly engaged in mining thermal coal.

We have investment processes for our equity portfolio that exclude or restrict investment in high risk companies with poor climate change risk management; and support companies which are improving their performance by reducing their carbon risk and investing in renewables. Our process has reduced the carbon footprint of our equity portfolio by 60% since 2017.

At the end of June 2019, our exposure to companies that we assess as making the largest contributions to climate change was just 0.13 percent, or \$15 million of our \$11 billion investment portfolio. We believe these businesses which we have invested in are managing their environmental impact to transition to a low carbon future.

Moving to a low carbon future must involve transitions by many companies, and we want to support those transitions.

We also continue to invest in and support the Green Bond market. At the end of June this year, we held \$79 million in green/social bonds. In 2018 we made a \$50 million commitment to a low carbon portfolio which is financing the operation of solar and wind generation assets.

We continue to review and refine our investment criteria, including by assessing and using ESG research, engaging with other like-minded investors and counterparties, and participating in organisations like the UN-supported Principles for Responsible Investment.

Underwriting

We also manage climate risk through our underwriting process. For many years, IAG has had minimal underwriting exposure to entities that mainly are in the business of extracting fossil fuels, or of power generation using fossil fuels. We have committed to ceasing any residual underwriting in these types of companies by 2023.

One exception to this is our decision to continue to underwrite workers' compensation insurance, irrespective of the climate intensity of the industry involved. This approach reflects our belief that everyone needs to be protected at work and is aligned with our purpose of making your world a safer place.

Last financial year, IAG's annual gross written premium relating to all mining and fossil fuel power generation – including workers' compensation in these areas – was less than 0.1% of the total premium IAG wrote in that period.

We provide updates on our climate-related investment exposure through the scorecards related to our Climate Action Plan, and by reporting aligned with recommendations of the Taskforce on Climate-related Financial Disclosures.

We have a specialist Natural Perils Team whose experts are increasingly sharing their knowledge. Our goal is to help as many organisations as possible understand the impact of extreme weather events, including by launching research that explores the global science of climate change and the implications of extreme weather events in Australia. Our team is also working to bring about amendments to planning approvals and building codes to address the impact of changing weather.

Business of the AGM

Shareholders asked why resolutions that are not supported by Directors are being put to the meeting.

A group of 118 shareholders, holding less than 0.017% of the company shares on issue, proposed two resolutions pursuant to section 249N of the Corporations Act. The Directors recommend that you vote against Resolutions 7(a) and 7(b) for the reasons set out below.

Resolution 7(a): Special resolution to amend the company's Constitution.

Resolution 7(a) proposes a new provision in the company's Constitution to enable shareholders, by ordinary resolution, to express an opinion or request information about the way in which a power of the company, partially or exclusively vested in the Directors, has been or should be, exercised.

The Board respects the rights of shareholders to seek to amend the company's Constitution, however, the Board does not consider this resolution to be in the best interests of shareholders for the following reasons:

- The power to manage the business of the company is conferred upon the Board by the Constitution. It is not appropriate or practical for the Board's power to manage the company to be potentially compromised by advisory resolutions promoted by narrow shareholder interest groups which fail to consider the interests of all IAG's stakeholders. It is important for the Board to be able to exercise its powers in relation to the business and affairs of the company having regard to its stakeholders and the interests of its shareholders as a whole.
- Shareholders already have multiple avenues to express an opinion or request information about the company.

IAG has an active investor relations program which provides shareholders with a number of ways to ask questions and make comments about IAG, including through:

- giving shareholders the right to ask questions or make comments regarding any aspect of the company's business as part of the discussion on Resolution 1 in the Notice of Meeting, or at any other time. A question form is provided with this Notice of Meeting to encourage shareholders to submit questions in advance of the AGM;
- pre-AGM meetings with our largest shareholders and the major governance and advisory bodies;
- post-results meetings with domestic and offshore institutional investors every six months; and
- periodic presentations on our strategy or specific aspects of our business, as appropriate. One recent initiative was a webcast Q&A session with IAG's Chief Financial Officer for retail shareholders.

For the above reasons, the Board considers that the proposed resolution does not improve the ability of shareholders as a whole to be heard and, to the contrary, could lead to confusion and impede the ability of the Board to exercise its powers in the best interest of shareholders as a whole.

Resolution 7(b): Disclosure of targets to reduce investment exposure to fossil fuel assets

Resolution 7(b) is an advisory resolution proposing that IAG disclose measurable targets to reduce investment exposure to fossil fuel assets, consistent with the goal of the Paris Agreement to limit the increase in global average temperatures to well below 2°C above pre-industrial levels. The resolution also proposes that IAG disclose its plans and progress towards achieving these targets on an annual basis, starting with the 2019-20 Annual Report.

The Directors do not consider this resolution to be in the best interests of shareholders for the following reasons:

- a) IAG is committed to investing responsibly and has reduced its investment exposure to fossil fuel assets to a very low level

IAG has been a signatory to the United Nations-supported Principles for Responsible Investment since 2008.

IAG is also a founding member of the Australian Sustainable Finance Initiative, which is a cross-industry collaboration established to enable the financial services sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with global goals including the Paris Agreement on climate change and the United Nations Sustainable Development Goals.

IAG's investment portfolio has very limited exposure to higher risk companies with the largest contribution to climate change, which represent 0.13% of our investment assets at 30 June 2019, down from 0.43% two years ago. When constructing our investment portfolio, we take into account, and balance, environmental, social and governance (ESG) considerations against our commercial investment criteria and strategy.

As outlined in our Climate Action Plan, we are working to leverage our investment potential to support a transition to a low carbon economy or develop infrastructure that can reduce the risks (and premium costs) faced by the community. Since 2017, we have moved our equities holdings away from companies with the highest exposure to, and poor strategies to manage, ESG factors, including climate-related risks. IAG continues to review and refine its approach to investment through its commitments under our Climate Action Plan.

Given IAG has very limited investment exposure to fossil fuel assets, has actively reduced that exposure and has a demonstrated commitment to responsible investment, the Board considers that setting fossil fuel investment reduction targets presents little or no benefit and is not in the best interests of shareholders.

b) IAG has made significant progress towards its climate action targets and provides regular climate-related disclosures

In the 2018 financial year, IAG set science-based carbon emission reduction targets for our operations consistent with commitments in the Paris Agreement on climate change. In the 2019 financial year, IAG reduced greenhouse gas emissions by 22.6%, exceeding our target of a 20% reduction in carbon emissions by 2020. IAG has also been carbon neutral since 2012.

IAG also manages climate risk through its underwriting process. IAG has committed to cease underwriting entities predominantly in the business of extracting fossil fuels and power generation using fossil fuels by 2023.

In alignment with its purpose to make your world a safer place, IAG has committed to underwrite workers' compensation insurance irrespective of the climate intensity of the industry of work as we believe everyone needs to be protected at work. As at 30 June 2019, IAG's annual gross written premium relating to all mining and fossil fuel power generation (including workers' compensation in these areas) was less than \$10 million, which equates to less than 0.1% of the total gross written premium written by IAG in the 2019 financial year.

IAG's strategic commitments are set out in its Climate Action Plan, which has five key areas of focus:

- think big – ensuring IAG leads on the right issues and builds the right relationships to enable climate action;
- prepare our people – so that we can apply the depth of experience of people from across our business to support climate action;
- reduce our emissions – to ensure IAG plays its role in emissions reduction;
- invest responsibly – to ensure our investment activity aligns to IAG's purpose and appropriately addresses ESG and climate change considerations; and
- rethink risk – to ensure IAG's products, systems and partnerships help customers, businesses and communities to make a smooth transition to whatever the future brings.

Our Climate Action Plan is a comprehensive, goal-oriented strategy to tackle climate action through to the 2021 financial year and includes a scorecard outlining Group Executive accountability. IAG reports on progress towards achieving the commitments in its Climate Action Plan every six months.

Since 2018, IAG has commenced the expansion of our climate change-related disclosure to facilitate the phased introduction of the recommendations of the Taskforce on Climate-related Financial Disclosures. Relevant climate change-related disclosures were included in the 2019 Annual Report.

Further information on IAG's climate risk-related targets and key metrics are available in the Safer Communities section of the IAG website (<https://www.iag.com.au/safer-communities/esg-commitments-and-performance/climate-related-disclosure-2019>).