

Remuneration approach

Our purpose: we make your world a safer place

IAG's purpose guides our remuneration approach by aligning executive pay outcomes with the interests of our customers, community and shareholders. We achieve this alignment by assessing both financial and non-financial performance, including a risk assessment, to ensure results are delivered in a way that is sustainable and benefits all IAG stakeholders.

Remuneration reflects delivery of strategy, business results and risk performance

IAG rewards executives through a combination of fixed pay, short term incentives (STI) and long term incentives (LTI).

In the 2019 financial year, IAG has continued to deliver strong business performance, recording outcomes at the mid point of guidance measures provided to the market, in relation to GWP growth and reported insurance margin. A key element of the improved underlying margin outcome was the realisation of net benefits under the optimisation program, which includes initiatives designed to simplify our business, reduce controllable expense and improve the experience of our customers. In addition, a strong capital position has been maintained, following distribution of surplus capital to shareholders. The table below outlines key performance measures and remuneration outcomes reflecting IAG's business results.

- A review of fixed pay determined that current executive fixed pay levels are appropriate, and will remain unchanged for the 2020 financial year. The August 2018 review resulted in Peter Harmer, Mark Milliner, Craig Olsen and Julie Batch receiving fixed pay increases during the 2019 financial year. The increases ranged from 5.0% to 11.8% and were applied to meet market pay levels.
- STI outcomes reflect Group and individual executive performance during the 2019 financial year. Further improvement in underlying business performance was achieved, in line with the market guidance measures provided at the outset of the year.
- The LTI rewards executives for achieving long term performance. Based on strong returns, the cash return on equity (ROE) element of the 2015/2016 LTI award vested in full. On 30 September 2018, the relative total shareholder return (TSR) portion of the 2014/2015 LTI award was tested. IAG's TSR was ranked at the 61st percentile of its peer group resulting in a 72% vesting outcome.

SUMMARY OF EXECUTIVE PERFORMANCE OUTCOMES			
	Performance measure	Performance outcome	Remuneration outcome as % of maximum
STI	Group Balanced Scorecard	60%	47% to 72% (average of 60%)
	Cash ROE	1.71 times WACC*	100%
LTI	Relative TSR	61st percentile of peer group	72%

* Weighted Average Cost of Capital (WACC)

As foreshadowed at the 2018 annual general meeting, the Board has reviewed the LTI plan ROE hurdle. The review considered factors including the impact of monetary policies on the global cost of capital, the changing capital base of the Company and the need to ensure the hurdle is sufficiently stretching. As a result, the Board has increased the cash ROE hurdle vesting range from 1.2 to 1.6 times WACC, to 1.4 to 1.9 times WACC for future awards, with the expectation of typically lower vesting outcomes for executives.

Risk performance and accountability is a key input to variable pay

IAG takes a balanced approach to assessing executive performance across financial and non-financial measures, while also considering risk management effectiveness. When assessing risk performance, the full range of risks that IAG faces are considered, including reputational and operational risk. The way we assess executive risk management performance continues to evolve, building on the improvements outlined in IAG's 2018 annual report.

For the 2019 financial year, our risk performance assessment approach was further enhanced to ensure that remuneration outcomes support effective risk management and IAG's long term soundness. Under this approach:

- the risk performance assessment was extended beyond executives to cover approximately 80 senior leaders across IAG;
- the Board Risk Committee, with input from the Chief Risk Officer and executive general manager, Group Internal Audit, provides an independent assessment to the People and Remuneration Committee and Board when they make remuneration decisions; and
- the Chief Risk Officer and Chief Financial Officer review remuneration for their Risk and Financial Control roles to confirm that the arrangements do not compromise the independence of those employees (and provide an annual attestation to that effect).

The Board has an ongoing program of work to assess remuneration and performance frameworks to ensure they promote effective risk management practices. During the year, we further strengthened those frameworks by:

- including a risk maturity objective in the Group Balanced Scorecard to further develop IAG's risk practices and culture;
- introducing a formal assessment of risk maturity and risk culture which is approved by the Board Risk Committee;
- increasing the deferred portion of Group Leadership Team STI awards from 33% to 50%;
- extending the LTI Cash ROE vesting period from three to four years; and
- increasing the difficulty of LTI Cash ROE hurdles for the 2020 financial year and future LTI awards.

The regulatory environment in which IAG operates continues to evolve post the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The recent release by APRA of Draft Prudential Standard CPS 511 Remuneration has significant implications for both the design and governance of remuneration arrangements. The Board recognises that the new draft Standard, which is currently subject to a consultation process, could potentially have a significant impact on remuneration and governance approaches, and could lead to a substantial review of IAG's framework in 2020.

Actual remuneration received by Executives

Details of the remuneration received by Executives designated as key management personnel during the 2019 and 2018 financial years are set out below. The table displays fixed pay and other benefits paid during the financial year, the value of cash STI awards earned in the financial year, and the value of prior years' deferred STI and LTI awards that vested during the financial year. The proportion of STI paid as cash was reduced from 67% to 50% for awards made for the 2019 financial year. For remuneration details provided in accordance with the Accounting Standards, refer to the table on page 35 of the 2019 annual report.

Executives	Financial year	Fixed pay ¹	Other benefits and leave accruals ²	Termination benefits ³	Cash STI ⁴	Deferred STI vested ⁵	LTI vested ⁶	Total actual remuneration received
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
Peter Harmer	2019	1,858	136	-	709	655	2,049	5,407
	2018	1,700	88	-	1,258	398	1,058	4,502
Julie Batch	2019	728	3	-	269	200	462	1,662
	2018	700	(7)	-	403	141	169	1,406
Nicholas Hawkins	2019	1,200	33	-	480	399	1,480	3,592
	2018	1,200	37	-	768	344	1,058	3,407
Jacki Johnson	2019	1,091	41	-	303	360	1,574	3,369
	2018	1,091	12	-	663	289	1,054	3,109
Mark Milliner	2019	1,079	117	-	432	1,306	-	2,934
	2018	1,000	76	-	576	-	-	1,652
Craig Olsen ⁷	2019	785	62	-	339	202	448	1,836
	2018	728	58	-	496	119	122	1,523
David Watts ⁸	2019	704	32	-	176	-	-	912

Executives who ceased as key management personnel

Tim Clark ⁸	2019	118	(3)	-	28	-	-	143
	2018	206	12	-	76	-	-	294

1 Fixed pay includes amounts paid in cash, superannuation contributions plus the portion of IAG's superannuation contribution that is paid as cash instead of being paid into superannuation. Fixed pay also includes salary sacrifice items such as cars and parking as determined in accordance with AASB 119 *Employee Benefits*. The August 2018 review resulted in Peter Harmer, Mark Milliner, Craig Olsen and Julie Batch receiving fixed pay increases during the 2019 financial year.

2 Further details are provided in Table 12 on page 35 of the 2019 annual report.

3 Payment in lieu of notice, which incorporates statutory notice and severance entitlements.

4 Cash STI earned within the year ended 30 June 2019 and to be paid in September 2019. The proportion of STI paid as cash was reduced from 67% to 50% for awards made for the 2019 financial year.

5 The deferred STI vesting on 1 September 2018 was valued using the five day VWAP of \$7.65 (1 September 2017: \$6.34).

6 The LTI vested was valued using the five day VWAP at vesting date which was \$7.98 for awards vested on 16 August 2018 and \$7.32 for awards vested on 30 September 2018 (24 August 2017: \$6.43 and 30 September 2017: \$6.39).

7 Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2019 which was 1 NZD = 0.938 AUD.

8 Remuneration for Tim Clark and David Watts is presented for the period for which they served as a key management personnel.

Statutory remuneration details for Non-executive Directors

Non-executive Directors	Financial year	Short-term employment benefits		Post-employment benefits				Share-based payment	Total
		IAG Board fees received as cash	Other Board and committee fees	Super-annuation	Retirement benefits	Other long-term employment benefits	Termination benefits		
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Elizabeth Bryan	2019	485	169	21	-	-	-	113	788
	2018	481	197	20	-	-	-	90	788
Duncan Boyle	2019	176	91	25	-	-	-	-	292
	2018	176	63	23	-	-	-	-	262
Hugh Fletcher	2019	176	186	21	-	-	-	-	383
	2018	176	184	21	-	-	-	-	381
Sheila McGregor ¹	2019	44	23	19	-	-	-	124	210
	2018	53	7	6	-	-	-	-	66
Jon Nicholson	2019	176	68	23	-	-	-	-	267
	2018	176	55	22	-	-	-	-	253
Helen Nugent	2019	176	46	21	-	-	-	-	243
	2018	176	59	22	-	-	-	-	257
Tom Pockett	2019	178	68	21	-	-	-	-	267
	2018	179	68	20	-	-	-	-	267
George Savvides ²	2019	10	1	1	-	-	-	-	12
Michelle Tredenick ¹	2019	135	23	19	-	-	-	53	230
	2018	53	7	6	-	-	-	-	66

Non-executive Director who ceased as key management personnel

Philip Twyman ³	2019	57	15	7	-	-	-	-	79
	2018	178	60	20	-	-	-	-	258

1 Non-executive Directors appointed part way through the year ended 30 June 2018.

2 Non-executive Director appointed part way through the year ended 30 June 2019.

3 Non-executive Director ceased as key management personnel part way through the year ended 30 June 2019.

The information shown on pages 20 and 21 is an extract from the 2019 remuneration report, which appears on pages 19-40 of the 2019 annual report.