

# Letter from the Chairman of the People and Remuneration Committee

## Dear Shareholders,

On behalf of the People and Remuneration Committee (PARC) and the Board I am pleased to present the 2021 Remuneration Report.

The 2021 financial year has seen the continuation of economic challenges across Australia and New Zealand as a consequence of the protracted COVID-19 pandemic as well as other environmental challenges caused by storms, floods, cyclones and the aftermath of bushfires. At the same time the Board was concluding an extensive CEO search process. Against this backdrop, the PARC monitored the health and safety of its employees as they continued with remote work settings as well as oversaw the changes to organisational structure and Executive appointments.

Through all this, the Board has sought to ensure that IAG's remuneration framework appropriately balances the need to reward, motivate and retain employees with the skills and capabilities required to ensure IAG's ongoing success.

## Renewed strategy, renewed focus

During the 2021 financial year, IAG refreshed its strategy to focus on becoming more sustainable over the long term. The structure and composition of the Executive Leadership Team was also refreshed during the year to ensure clear accountabilities and alignment with the renewed strategy.

There are four new strategy pillars: grow with our customers, build better businesses, create value through digital and manage our risks. These pillars are now included in the Group Balanced Scorecard, ensuring a clear link between delivery of the strategy and executive remuneration outcomes.

## Business performance

While IAG's underlying financial performance was sound and within expectations, profitability was affected by a number of operational risk issues which have been identified and provisioned for in the accounts, the most material of which was the pre-tax \$1.15 billion charge IAG announced in November 2020 to provide for potential business interruption claims relating to COVID-19. After excluding the impact of these provisions along with other items identified in the net corporate expense and amortisation and impairment lines, IAG's reported cash earnings for the year was \$747 million, up from \$279 million in the year ended 30 June 2020. Over the 2021 financial year we have continued to pay dividends and our capital position remains strong.

## Alignment of remuneration outcomes with business results

The Board has determined remuneration outcomes for employees through a balanced scorecard assessment that includes financial results, shareholder returns and customer growth, against a challenging work context brought on by the COVID-19 pandemic. This balance is reflected in remuneration outcomes as follows:

### Short-term incentives (STI)

In determining STI outcomes, the Board has been mindful of the experience of shareholders, while at the same time recognising the contribution of the Executives. While the 2021 financial year cash earnings result was strong and overall Group Balanced Scorecard performance was above target, in recognition of the impact of operational risk issues, the Board determined STI outcomes for Executives ranging from 0% to 64% of maximum opportunity. In addition, the Board also determined to reduce the overall level of STI funding across IAG for the 2021 financial year to 60% of maximum. It is important to note that no STI awards were approved for the year ended 30 June 2020 when the business interruption insurance exposure was identified. The maximum potential value of the 2020 STI awards relating to Executives would have been approximately \$9 million.

### Long-term incentives (LTI)

LTI awards with return on equity (ROE) and relative total shareholder return (TSR) performance hurdles were measured during the year ended 30 June 2021.

- The 2017/2018 LTI awards with an ROE performance hurdle reached the end of their three-year performance period on 30 June 2020. Based on the Group's performance over the period against the vesting scale, the Board determined the award would vest at 82%.

LTI awards with an ROE performance hurdle granted from 2018/2019 onwards are subject to a four-year performance period. The next ROE performance test will therefore occur after 30 June 2022.

- The 2016/2017 LTI awards with a TSR performance hurdle reached the end of their four-year performance period on 30 September 2020. IAG's TSR was ranked at the 39th percentile of its peer group resulting in 0% vesting of this award. This reflected approximately \$3.5 million forgone by Executives. All rights under this award have lapsed. The next TSR performance test will be after 30 September 2021.

## Risk-based adjustments to performance pay

The Board has progressively set higher standards for executive accountability, annually reviewing risk management outcomes and identifying accountable Executives. During the 2021 financial year, the Board responded to complex historical matters that spanned multiple years and involved multiple accountable Executives.

In response to risk matters that emerged during the 2021 financial year, the Board has applied downward adjustments to the remuneration of some former employees, including the accountable Executives during the relevant period and certain individuals who reported to them at that time. The total value of these adjustments to six individuals was approximately \$3.4 million. The adjustments took the form of reductions to STI awards for the 2021 financial year and/or adjustments to the value of unvested LTI and deferred STI awards. For some matters, these downward adjustments were in addition to the \$3.5 million in adjustments made for the 2020 financial year, and reflect the change in the size and probability of risk as it has evolved across the reporting periods.

## Continued focus on risk maturity

Each year IAG reviews and improves the management of its risk and compliance systems and processes. I am pleased to report IAG has made significant progress in its efforts to further enhance risk and compliance management frameworks, processes and practices. Through Project rQ, IAG has progressed with the implementation of a new Integrated Risk Management System, delivered more detailed understanding of material risks across the organisation, and further embedded control management practices. Project rQ and all divisions are now also actively engaged in ensuring that the progress made on risk and compliance management frameworks, processes and practices is sustainably embedded.

This greater focus on risk management has been reflected in the Balanced Scorecard against which performance is measured, and in the application of consequences for poor risk management outcomes.

## Review of Non-Executive Director fees and Executive fixed pay

There were no increases to fixed pay for Executives during the 2021 financial year, other than where there was a change in role accountabilities. Following a review of Executive remuneration in August 2021, to reflect market relativities the Board determined to increase the fixed pay for the Managing Director and Chief Executive Officer to \$1.8 million and apply increases ranging between 3% and 9% for three other Executives.

There have been no changes to Board or Committee fees since the year ended 30 June 2017. Following a benchmarking exercise, the Board has determined to leave Board and Committee fees unchanged for the year ending 30 June 2022, with the intention to review the following financial year.

## Executive remuneration framework review during 2022

The PARC has engaged an external consultant to undertake a formal independent review of IAG's Remuneration Framework. This independent review is being undertaken to ensure IAG's Remuneration Framework continues to support the renewed strategy, while also considering the anticipated regulatory changes within financial services. Any changes made following the independent review will be outlined in next year's Remuneration Report.

Thank you for taking the time to read the Remuneration Report and we welcome your feedback.



**George Savvides**  
Chairman, People and Remuneration Committee

## Actual remuneration received by Executives

The following table details remuneration received by Executives during FY21 (and FY20), which includes:

- 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 STI and LTI awards deferred from previous years that vested during the financial year.

For remuneration details provided in accordance with the Australian Accounting Standards, refer to Table 13 on page 53 of the remuneration report in the FY21 annual report.

Executives	Financial year	Fixed pay <sup>1</sup> \$000	Other benefits and leave accruals <sup>2</sup> \$000	Termination benefits <sup>3</sup> \$000	Cash STI <sup>4</sup> \$000	Deferred STI vested <sup>5</sup> \$000	LTI vested <sup>6</sup> \$000	Total actual remuneration received
								\$000
Nick Hawkins	2021	1,465	109	–	634	272	469	2,949
	2020	1,200	6	–	–	374	1,907	3,487
Julie Batch	2021	875	4	–	327	148	274	1,628
	2020	767	1	–	–	201	924	1,893
Michelle McPherson <sup>7</sup>	2021	817	509	–	286	–	–	1,612
	2020	184	13	–	–	–	–	197
Neil Morgan <sup>8</sup>	2021	658	35	–	252	–	–	945
Craig Olsen <sup>9</sup>	2021	787	86	–	296	185	296	1,650
	2020	802	38	–	–	232	957	2,029
Christine Stasi <sup>10</sup>	2021	750	36	–	280	129	–	1,195
	2020	492	281	–	–	–	–	773
David Watts	2021	875	34	–	224	331	–	1,464
	2020	875	16	–	–	423	–	1,314
Amanda Whiting <sup>11</sup>	2021	478	21	–	168	–	–	667
<b>Executives who ceased as KMP</b>								
Peter Harmer <sup>12</sup>	2021	640	47	–	–	–	–	687
	2020	1,900	26	–	–	638	3,179	5,743
Mark Milliner <sup>13</sup>	2021	375	27	1,015	73	227	391	2,108
	2020	1,100	36	–	–	297	1,730	3,163

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. Nick Hawkins, Julie Batch, Michelle McPherson, Neil Morgan and Amanda Whiting received increases to their fixed pay following their appointments to their respective new roles.

2 Further details are provided in Table 13 in Appendix 1 on page 53 of the remuneration report in the FY21 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 and to be paid in the following September (representing 50% of the award made for the financial year).

5 Deferred STI vesting on 11 August 2020 was valued using the five day VWAP of \$5.06 (12 August 2019: \$7.82 and 1 September 2019: \$7.97).

6 LTI vested was valued using the five day VWAP at the vesting date which was \$5.06 for awards vested on 11 August 2020 and \$4.80 for awards vested on 15 October 2020 (12 August 2019: \$7.82 and 15 October 2019: \$7.72).

7 Michelle McPherson was appointed as Acting Chief Financial Officer on 8 April 2020. Her remuneration in the prior year is shown for the period she served in a KMP role. Ms McPherson was permanently appointed as Chief Financial Officer on 2 November 2020. Her remuneration in the current year is shown for the full financial year. Ms McPherson received a \$509,176 cash payment on 17 September 2020 as compensation for incentives forgone from her previous employer.

8 Neil Morgan was considered KMP from 19 September 2020. His remuneration is presented for the period he served in that role.

9 Remuneration for Craig Olsen was determined in New Zealand dollars (NZ\$) and reported in Australian dollars (A\$) using the average exchange rate for the year ended 30 June 2021 which was 1 NZ\$ = 0.93067 A\$.

10 Christine Stasi commenced as Group Executive, People, Performance and Reputation on 4 November 2019. Her remuneration in the prior year is shown for the period she served in a KMP role.

11 Amanda Whiting was appointed as Acting Group Executive, Intermediated Insurance Australia on 10 March 2021. Ms Whiting was Acting Group Executive, Direct Insurance Australia from 2 November 2020 to 9 March 2021. Her remuneration is presented for the period she served in a KMP role.

12 Peter Harmer ceased holding a KMP role on 1 November 2020. His remuneration is presented for the period he was in that role.

13 Mark Milliner ceased holding a KMP role on 2 November 2020. His remuneration is presented for the period he was in that role.

## Statutory remuneration details for Non-executive Directors

Non-executive Directors	Financial year	Short-term employment benefits		Post-employment benefits			Other long-term employment benefits	Termination benefits	Share-based payment	Total
		IAG Board fees received as cash	Other Board and committee fees	Superannuation	Retirement benefits					
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Elizabeth Bryan <sup>1,2</sup>	2021	528	169	22	–	–	–	–	–	719
	2020	440	169	21	–	–	–	–	125	755
Simon Allen <sup>3</sup>	2021	176	185	21	–	–	–	–	–	382
	2020	112	117	13	–	–	–	–	–	242
Duncan Boyle	2021	176	74	24	–	–	–	–	–	274
	2020	176	91	25	–	–	–	–	–	292
Sheila McGregor <sup>2</sup>	2021	176	37	20	–	–	–	–	–	233
	2020	88	39	20	–	–	–	–	83	230
Jon Nicholson	2021	176	68	23	–	–	–	–	–	267
	2020	176	68	23	–	–	–	–	–	267
Helen Nugent	2021	176	37	20	–	–	–	–	–	233
	2020	176	46	21	–	–	–	–	–	243
Tom Pockett	2021	185	77	14	–	–	–	–	–	276
	2020	178	68	21	–	–	–	–	–	267
George Savvides	2021	176	55	22	–	–	–	–	–	253
	2020	176	46	22	–	–	–	–	–	244
Michelle Tredenick <sup>1,2,4</sup>	2021	94	46	21	–	–	–	–	65	226
	2020	88	39	20	–	–	–	–	83	230

1 Cash fees paid to Elizabeth Bryan and Michelle Tredenick were reduced to satisfy a shortfall in Board fees sacrificed in respect of the NARs award in the 2019 financial year. The amounts disclosed in the 2019 financial year were correct.

2 Cash fees paid to Elizabeth Bryan, Sheila McGregor and Michelle Tredenick reflect Board fees sacrificed in respect of NARs awarded in the 2020 financial year.

3 Non-Executive Director appointed part way through the year ended 30 June 2020.

4 Cash fees paid to Michelle Tredenick reflect Board fees sacrificed in respect of NARs awarded in the 2021 financial year.