IAG’s corporate governance structure and risk management framework is designed to provide a sustainable balance between its core operating purpose (to pay claims, understand and price risk, manage costs and reduce risk) and its responsibility to provide fair and stable returns to shareholders.

1. IAG’S APPROACH TO CORPORATE GOVERNANCE

1a. Evolving framework
The Group is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and to create long-term value for its shareholders. To achieve this, the Company promotes a culture that rewards transparency, integrity, meritocracy, teamwork and social responsibility.

The key corporate governance practices followed by the Group and its people are summarised below. They are not an exhaustive list of all corporate governance practices in place. Copies of IAG’s Board and Board Committee Charters and key corporate governance policies can be found on IAG’s website at www.iag.com.au.

During the past year, the Group’s corporate governance framework has continued to evolve in response to changes in its operations and as a result of the Group’s international expansion.

In the past year, IAG accelerated its overseas expansion, investing approximately $1.8 billion in new insurance businesses in the United Kingdom. The Group strengthened its corporate governance and Board oversight by appointing to the IAG Board the Chairs of the main overseas country subsidiary Boards in the United Kingdom and New Zealand. Mr Phillip Colebatch and Mr Hugh Fletcher are respectively the Chairs of IAG UK Holdings Limited and IAG New Zealand Limited.

1b. Regulatory
The regulatory environment in which the Group conducts its business continues to have a major influence on the Group’s corporate governance practices.

A sound regulatory regime is required to assist with stability and sustainability of the insurance sector. The regime needs to be competitively neutral – one that allows all industry participants to compete on the same consistent regulatory playing field and avoids or minimises incidents of regulatory overlap between prudential, market conduct and competition and consumer regulators.

The Australian Federal Government has made significant progress in relation to regulatory reform. A number of positive steps have been taken in the UK which is considering a move to a more principles-based regulatory regime.

The Group believes that active engagement with governments, regulators, industry and professional groups ensures that the interests of the Group and its stakeholders are properly considered in the formulation of proposals to improve corporate governance, general insurance prudential regime and insurance industry practices. In this context, the Group strives for regulation that enhances, rather than stifles, competition; protects consumers; encourages efficiency; and promotes and sustains public confidence in insurers and their products.

In the past year, the Group has again actively participated in the debate to improve Australia’s corporate governance regime, making submissions to Federal and State Government committees and enquiries, and regulators in relation to new legislation and regulation affecting the insurance industry. The Group has also participated in a number of reviews of the New Zealand regulatory and legislative framework.

<table>
<thead>
<tr>
<th>ASX Principles of Good Corporate Governance</th>
<th>Where you can find commentary on how IAG applies these Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lay solid foundations for management and oversight</td>
<td>2a</td>
</tr>
<tr>
<td>Structure the board to add value</td>
<td>2b–2g and 4b</td>
</tr>
<tr>
<td>Promote ethical and responsible decision making</td>
<td>5a–5b</td>
</tr>
<tr>
<td>Safeguard integrity in financial reporting</td>
<td>4a and 4c</td>
</tr>
<tr>
<td>Make timely and balanced disclosure</td>
<td>5c</td>
</tr>
<tr>
<td>Respect the rights of shareholders</td>
<td>6</td>
</tr>
<tr>
<td>Recognise and manage risk</td>
<td>4d and 7</td>
</tr>
<tr>
<td>Encourage enhanced performance</td>
<td>2f and 9a</td>
</tr>
<tr>
<td>Remunerate fairly and responsibly</td>
<td>Refer to the Remuneration Report at pages 40 to 58</td>
</tr>
<tr>
<td>Recognise the legitimate interests of stakeholders</td>
<td>8</td>
</tr>
</tbody>
</table>
In addition, IAG representatives continued to participate in forums, working parties and committees of domestic and overseas insurance industry associations, accounting and actuarial professional bodies to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices that have particular application to the general insurance industry.

Throughout the reporting period, the Group has complied with the Australian Securities Exchange (ASX) Corporate Governance Council’s Principles of Good Corporate Governance and Best Practice Recommendations.

2. THE BOARD OF DIRECTORS
2a. Roles and responsibilities

The Board
The Board is accountable to shareholders for the performance, operations and affairs of the Group. The Board’s principal role is to govern, rather than manage, the Group. The Directors represent and serve the Group, and specifically:

- Driving the strategic direction of the Group by setting goals and policies, and approving Group strategies and the Corporate Plan;
- Selecting, regularly evaluating and, if necessary, replacing the Chief Executive Officer;
- Setting the Group’s risk appetite;
- Monitoring management’s performance and the exercise of the Board’s delegated authority;
- Appointing and, where appropriate, removing the Chief Financial Officer, Approved Actuary and the Company Secretary;
- Reviewing CEO, CFO and senior management succession planning;
- Providing advice and counsel to senior management;
- Selecting appropriate candidates and recommending to IAG shareholders the election or removal of directors;
- Evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Directors;
- Monitoring financial performance and reporting;
- Approving significant corporate initiatives including major acquisitions, projects and divestments, and capital management transactions;
- Reviewing the adequacy of systems to comply with all laws and regulations which apply to the Group and its businesses;
- Monitoring key risk areas by ensuring the implementation of a suitable risk management and internal controls framework;
- Ensuring that all relevant legal and commercial requirements are met in terms of proper reporting and disclosure; and
- Setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, social and environmental responsibility) are adhered to at all times.

The Chief Executive Officer
The Board has delegated responsibility for the overall management and profit performance of the Group, including all the day-to-day operations and administration of the Group to the Chief Executive Officer, who is responsible for:

- Developing with the Board, implementing and monitoring the strategic and financial plans of the Group;
- The efficient and effective operation of the Group;
- Fostering a culture that rewards transparency, integrity, meritocracy, teamwork and social responsibility;
- Ensuring the ongoing development, implementation and monitoring of the Group’s risk management and internal controls framework;
- Ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision-making by the Board; and
- Ensuring all material matters affecting the Group are brought to the Board’s attention.

The Chief Executive Officer manages the Group in accordance with the policies, Budget, Corporate Plan, and strategies approved by the Board, and has the power to manage the Group, subject to the limits set out in the Charter of CEO Delegated Authority Limits (a copy of which can be found attached to the IAG Board Charter at IAG’s website at www.iag.com.au).

The Chairman
The Chairman provides leadership to the Board and the Group. The Chairman presides at Board and general meetings of the Company. The Chairman is responsible for ensuring the Board discharges its role, and works closely with the Chief Executive Officer in that regard. The roles of the Chairman and the Chief Executive Officer are separate.

The Board does not have a Deputy Chairman. However, Mr Rowan Ross has, on occasions, acted in this capacity.

2b. Structure and composition of the Board

Structure and composition
The Company’s Constitution provides for a minimum of three directors and a maximum of 12 or less directors as determined by the Directors from time to time. The Directors have determined that, for the present, the maximum number of directors is nine.

The Board currently comprises eight Non-executive Directors and one Executive Director, Mr Michael Hawker.

The Board considers its size and composition annually. In considering the size and composition of the Board, Directors will consider, among other things:

- The nature, size and complexity of the Group; and
- The efficiency and effectiveness of the Board, balancing the need to have sufficient skills and expertise to fulfil the needs of the Board and all its Committees, with the need to maintain a Board size where all Directors can effectively participate and contribute.

The names of Directors in office at the date of this report, their year of appointment, their designation as a Non-executive independent or Executive Director and their experience, expertise, and biographical details are set out at pages 24 and 25.

The Board from time to time and as considered appropriate, engages reputable recruitment consultants to assist the Board to identify suitable candidates for appointment to the Board.
Director independence
The Board has determined that the Board must be comprised of a majority of independent Non-executive Directors and that the Chairman must be an independent Non-executive Director.

The Board will determine whether each Director is independent, using the principles outlined in its Charter. Independence will be taken to be met when a Director is a Non-executive Director and:

- Is not a substantial shareholder of the Company (a shareholder with 5% or more of the issued voting shares), or associated directly with a substantial shareholder of the Company;
- Has not within the last three years been employed as an executive of the Company or any of its subsidiaries or been a Director after ceasing to hold any such employment;
- Has not within the last three years been associated with, or a principal of, a material professional advisor or material consultant to the Group, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Group, or an officer of or otherwise directly or indirectly associated with a material supplier or customer and has no material contractual relationship with the Group other than as a Director;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director’s ability to act in the best interests of the Group (as determined by the Board in the case of each Director); and
- Is otherwise free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the Director’s ability to act in the best interests of the Group.

The Directors have determined that a relationship is material where the value of goods or services provided to the Group in the past three years accounts for 5% or more of the consolidated gross revenue or consolidated expenses of either the Group or the supplier/customer’s corporate group over that three-year period.

Non-executive Directors are required to confirm their independence periodically while they remain in office. All current Non-executive Directors have confirmed their continued independence. 

Potential conflicts of interest
Where the Board is required to approve a transaction or arrangement with an organisation in which a Director has an interest, the relevant Director must disclose their interest and abstain from voting. Furthermore, Directors with potential conflicts do not serve on any Board Committees that are appointed to provide oversight of the implementation of transactions or arrangements, in which the other organisation plays a role.

2c. Non-executive Director induction and training
The Group encourages continuing professional education for each of its Directors. All Directors are expected to remain up-to-date in relation to issues affecting the Group, the general insurance industry, and their duties as Directors.

New Directors and senior executives have access to an orientation programme to introduce the Executive team and detail the Group’s businesses. Orientation includes individual meetings with the CEO, Group Executives and other senior management as well as site visits by new Directors.

‘101’ workshops are conducted regularly to assist Directors’ education on topics which include fundamentals of general insurance, reinsurance and investment. For example, in the past year workshops for Directors were held on insurance reserving including premium liabilities and the application of liability adequacy tests.

Executive Directors appointed to subsidiary and associated company boards are required to undertake Director training and to demonstrate that they have undertaken ongoing development and training to continue to effectively and competently perform their roles as Executive Directors.

2d. Tenure
It is expected that Directors will continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of the Company’s shareholders.

In September 2003, the Board introduced a tenure policy to apply to Non-executive Directors to ensure the Board comprises Directors who collectively have the relevant experience and skills required, and assist in maintaining the independence of the Board. The policy today, amongst other things, provides that the standard tenure for a Non-executive Director would be up to 10 years although the Board retains its discretion to invite Directors to stand for an additional term which may take their total tenure beyond 10 years.

Tenure includes the aggregate period of service with the company as well as service on the Board of Insurance Australia Limited (formerly NRMA Insurance Limited) accrued prior to service as a Director of the Company.

<table>
<thead>
<tr>
<th>Non-executive Directors</th>
<th>Term in office (at the date of this statement)</th>
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<tbody>
<tr>
<td>James Strong</td>
<td>6 years</td>
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<tr>
<td>Yasmin Allen</td>
<td>2 years and 9 months</td>
</tr>
<tr>
<td>Phillip Colebatch</td>
<td>8 months</td>
</tr>
<tr>
<td>Hugh Fletcher</td>
<td>Appointed 1 September 2007</td>
</tr>
<tr>
<td>Neil Hamilton</td>
<td>7 years and 2 months</td>
</tr>
<tr>
<td>Anna Hynes</td>
<td>Appointed 1 September 2007</td>
</tr>
<tr>
<td>Rowan Ross</td>
<td>7 years and 1 month</td>
</tr>
<tr>
<td>Brian Schwartz</td>
<td>2 years and 8 months</td>
</tr>
</tbody>
</table>

2e. Appointment terms
Formal appointment letters have been issued to each Non-executive Director, including the Chairman, to assist individual Directors in understanding the role of the Board and the corporate governance principles adopted by the Board. The letters formally document the basis of each Director’s appointment, including the standard term of their appointments and, where applicable, the cessation of further accrual of retirement benefits.

The appointment letters also provide for:

- The right of Non-executive Directors to, upon providing prior notice to the Chairman, obtain independent professional financial and legal advice, at the Company’s expense, to assist with discharging their duties efficiently;
- Measures used, and the processes to be applied, by the Board to assess the individual performance of Directors, details of which are set out in Section 2f below; and
- The expectation that Directors will abide by the Company’s Code of Ethics and its Continuous Disclosure and Security Trading policies.
2f. Measuring the performance of Directors

The Nomination, Remuneration & Sustainability Committee conducts a formal review of the Board’s performance, composition and size at least every three years.

Each Director’s performance is subject to evaluation by the Chairman annually, by discussion between the Chairman and the Director. Individual Directors also evaluate the Chairman’s performance annually. Measures of a Director’s performance will 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 his or her additional role as Chairman; and
- Input regarding regulatory, industry and social developments surrounding the business.

A formal review of individual Directors’ performance was conducted in June 2005, with assistance and input from an independent board performance expert. The review process involves the completion of questionnaires by Directors and Group Executives, the collation of results and discussion with individual Directors and the Board as a whole led by the Chairman.

2g. Board operations

The Board meets formally at least nine times during the year. Following the company’s expansion overseas, scheduled Board meetings are planned to be held in Europe and New Zealand annually.

Directors were also involved in a number of additional Board meetings for specific Group initiatives which, during the past year, principally related to investments in overseas markets.

The Board meets each September with the Group’s Executive team to review the Company’s strategic plan and to set the Company’s overall strategic direction.

Directors are encouraged to bring to Board meetings objective independent judgement in relation to the matters under consideration, to ask incisive, robust questions and require accurate, honest answers.

Directors’ attendance at Board and Committee meetings held during the year are shown at page 36 in the Directors’ Report.

As part of the operation of both the Board and standing Board Committees, Directors set aside time in meetings from time to time to meet without the Chief Executive Officer and/or management representatives present. The Board also meets with the CEO (without other executive management present) at the commencement of each Board meeting. Senior management representatives frequently attend Board meetings at the Board’s invitation.

Directors receive agendas, board papers and minutes in advance of meetings in hardcopy form or may access and download this information from a secure website established for this purpose.

3. COMPANY SECRETARY

The Company has appointed two Company Secretaries who are responsible to the Board for ensuring Board procedures are compiled with and who also provide advice and counsel to the Board in relation to the Company’s constitution, corporate governance, investor relations and other matters.

The qualifications and experience of IAG’s Company Secretaries are set out at page 36.

4. STANDING COMMITTEES

The Company has three standing Board Committees, each with charters and established operating procedures. Copies of the Committee charters are available at the Group’s website www.iag.com.au.

4a. Committee processes

All standing Board Committees are required to have three members and currently comprise only independent Non-executive Directors. Each Committee meets at least four times each year.

The Committees have un fettered access to Group Executives, senior management and advisors. The CEO, Group Executives and senior management are invited to meetings as required. All Directors have access to Committee papers and may attend any Committee meeting.

The Chairs of the Committees give oral reports on outcomes at the next Board meeting immediately following each Committee meeting and copies of all Committee minutes are made available to the full Board.

Each Committee annually reviews fulfilment of its responsibilities under its respective charter. Performance of each Committee is reviewed at the same time as the Board conducts its review of performance.

4b. Nomination, Remuneration & Sustainability Committee

The four members of the Nomination, Remuneration & Sustainability Committee are currently Mr Brian Schwartz (Chairman), Ms Yasmin Allen, Mr Rowan Ross and Mr James Strong.

The main responsibilities of this Committee include:

- Formally reviewing Board performance, size and composition and size at least every three years, and recommending candidates for appointment to the Board;
- Providing assistance to the Chairman on the review of the performance of individual Directors and making recommendations on the operation of the Board;
- Approving the Group’s remuneration policies and governance practices relating to Directors’ and executives’ remuneration, succession planning, and incentive schemes, recruitment, retention and termination policies;
- Making recommendations to the Board in respect of the remuneration of Non-executive Directors of the Company and Committees and the Chief Executive Officer including incentive and equity based remuneration;
- Approving the remuneration of Non-executive Directors appointed to subsidiary and associated companies’ boards and committees and to executive committees as well as the direct reports to the Chief Executive Officer;
- Reviewing management succession plans for executive positions;
- Reviewing the continuous improvement of human resource policies and practices against relevant benchmarks to achieve best practice;
- Providing oversight on how the Group ensures it acts with a high standard of social, environmental and ethical responsibility and making recommendations to the Board and management in relation to policies for these areas to enhance the corporate reputation and business performance of the Group;
- Monitoring how effectively the views of IAG’s key stakeholder groups (people, customers, community and shareholders) are considered and compliance with IAG’s published social, environmental and ethical responsibility policies and practices and the level of their integration into the business; and
- Considering social, environmental and ethical impacts of the Group’s business practices and setting standards for social, environmental and ethical practices.
CORPORATE GOVERNANCE
(CONTINUED)

4c. Audit Committee
The three members of the Audit Committee are Ms Yasmin Allen (Chairman), Mr Hugh Fletcher and Mr Brian Schwartz. All three members have financial management experience and one has accounting experience.

The main responsibilities of this Committee include:

- Assisting the Board and insurer subsidiary Boards to discharge their responsibility to exercise due care, diligence and skill in relation to the integrity of the Group’s internal and external financial and statutory reporting;
- Reviewing the appropriateness of the Group’s accounting policies and principles and monitoring the application of accounting and actuarial standards, policies and practices in the preparation of full and half-year financial and statutory reports;
- Reviewing and assessing significant estimates and judgements in financial and statutory reports and monitoring management processes for ensuring compliance with laws, regulations and other requirements relating to the Group’s external financial and statutory reporting;
- Assessing information from the external auditors, internal audit and risk and compliance functions that affects the quality of external and internal financial and statutory reports;
- Reviewing external auditor engagement, remuneration, independence and effectiveness;
- Making recommendations to the Board on the appointment, reappointment, removal and remuneration of the external auditor and monitoring his/her effectiveness;
- Monitoring compliance with an agreed framework for dealing with the external auditor’s and consulting actuaries’ firms for the provision of other services to ensure that such services and any relevant relationships do not compromise their objective and impartial judgement;
- Approving the internal audit plan and monitoring progress against the plan;
- Monitoring the independence and effectiveness of the internal audit function and overseeing adherence to the Group Internal Audit Charter; and
- Making recommendations to the Board on the appointment and removal of the Approved Actuary.

The Audit Committee is also empowered as the audit committee of IAG’s subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited (IMA), which has a separate Audit, Risk Management & Compliance Committee. In addition, the Audit Committee acts as the audit committee for IAG Finance (New Zealand) Limited, a company with debt securities listed on the ASX.

4d. Risk Management & Compliance Committee
The three members of the Risk Management & Compliance Committee are Mr Rowan Ross (Chairman), Mr Phillip Colebatch and Mr Neil Hamilton.

The main responsibilities of this Committee include:

- Overseeing the Group’s risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements;
- Reviewing and monitoring all material risks in the Group’s risk management systems: balance sheet, market (including investment, insurance, liquidity, product, pricing, underwriting, liability, claims management and derivatives risks), credit, operational and reinsurance risks to ensure the effective management of all such risks;
- Reviewing and evaluating the effectiveness of the Group’s risk management framework and internal control systems;
- Ensuring that the Group risk function has the appropriate organisational structure, authority, standing and resources to effectively execute its mandate;
- Reviewing the reinsurance renewal strategies and approval of the implementation of reinsurance renewal strategies;
- Approving, in conjunction with the Audit Committee, the internal annual audit plan and monitoring progress against the plan;
- Making recommendations to the Board on the appointment and removal of the Head of Group Risk & Compliance and monitoring his/her effectiveness;
- Ensuring that a properly resourced risk management and compliance framework and structure exists throughout the Group and that appropriate reporting and monitoring systems are in place; and
- Ensuring that policies and procedures are in place for Group employees to confidentially raise concerns and that these are appropriately addressed.

The Risk Management & Compliance Committee is also empowered as the risk management and compliance committee of IAG’s subsidiaries that are authorised general insurers in Australia, except for IMA, which has a separate Audit, Risk Management & Compliance Committee.

5. PROMOTING ETHICAL AND RESPONSIBLE DECISION-MAKING
The Group takes ethical and responsible decision-making very seriously. It expects its employees and Directors to do the same, as reflected in its internal Group-wide ethical principles, outlined in the IAG Code of Ethics.

5a. IAG Code of Ethics
The IAG Code of Ethics has been developed to provide all Group employees with a framework to make good, informed business decisions and to act on them with integrity. The Code sets out the principles to guide the behaviours of every employee in the Group. This means that when the Group’s stakeholders interact with our employees they should feel assured that employees will act in a responsible, ethical, transparent and honest way, wherever the Group operates.

In developing the Code of Ethics, the Group saw an opportunity to strengthen our value of ‘honesty’ to ‘integrity’. The foundation of an ethical organisation is the integrity of each member in acting in a way that is true to our shared values and purpose.

The Code applies to all employees of the Group’s subsidiaries.

In some regions, the IAG Code of Ethics is also supported by a Code of Conduct which provides more specific guidance for operating in the local legal and regulatory environments.

5b. Whistleblowing
Employees are encouraged to raise any material matters of concern through the Group’s management structure as part of the Group’s objective of building a culture where people perform their duties in an ethical and appropriate manner.

The Group is proactive about preventing, detecting and investigating all instances of suspected serious inappropriate behaviour. ActionLine, an independent whistleblowers hotline, was introduced to capture the most serious incidents of inappropriate behaviour within the organisation and to encourage employees to raise other material matters of concern that they believe have not been appropriately addressed through the Group’s management structure. This can be done anonymously through the external provider via web application, telephone, email and facsimile.

5c. Continuous Disclosure and Security Trading policies
The Group’s Continuous Disclosure and Security Trading policies reinforce its commitment to continuous disclosure, as well as the responsibility of all employees regarding price sensitive information and insider trading.
The Continuous Disclosure policy includes a protocol outlining how information is released to the public and provides examples of what could constitute price sensitive information.

The Security Trading Policy sets the framework for employee dealings in IAG securities, and aims to prevent employees from inadvertently breaching insider trading laws. The protocol specifies that Directors, Group Executives and designated employees may only buy or sell IAG securities in the four-week period commencing two trading days after the Group’s half-year and full-year results announcements and the annual general meeting (AGM) or any other period approved by the Board, subject to these persons not being in possession of inside information as defined by the law.

In addition, IAG Directors, Group Executives and certain designated executives may only trade in IAG securities in these periods after they have received prior consent from the Nomination, Remuneration & Sustainability Committee (NRSC) and complied with any conditions on trading in IAG securities that the Committee imposes, subject again to not being in possession of inside information as defined by the law.

Designated persons including IAG Directors and Group Executives may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements (such as Performance Award Rights and Deferred Award Rights) to IAG securities. In addition these designated persons must notify the NRSC before entering into transactions in associated products which operate to limit the economic risk of their vested security holdings in the Company.

Directors and management are encouraged to assist in the process of the Board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act and the ASX Listing Rules in relation to continuous disclosure so as to keep markets fully informed.

6. SHAREHOLDERS
In keeping with the Code of Ethics and the spirit of continuous disclosure, the Group is committed to ensuring shareholders are informed of significant developments for the Group. Regular announcements to the ASX are posted on the Company’s website, www.iag.com.au.

There are approximately 54,000 shareholders who have registered their email address to be advised when shareholder communications including the Annual and Half Year Reports, dividend advices and holding balance statements are available electronically.

Major investor briefings are webcast where practical and copies are retained on the website for ease of access. When conducting briefings of investors, care is taken to ensure that price sensitive information is not inadvertently communicated to market participants and is provided to all investors and market participants at the same time in accordance with the ASX Listing Rules.

Media coverage of key events is also sought as a means of delivering information to shareholders and the market. Formal communication with shareholders is also conducted via the annual report, concise annual report, half year report and at the AGM of shareholders.

The Group is mindful of the need to adopt best practices in the drafting of notices for general meetings and other communications with shareholders to ensure that its notices of meetings are honest, accurate, informative and not misleading.

The Company is seeking the approval of shareholders at the 2007 AGM to amend IAG’s Constitution to allow direct voting at IAG’s general meetings held after 2007 as a simple, convenient voting alternative for shareholders appointing proxies or representatives.

Electronic proxy voting is available to IAG shareholders and helps to facilitate ease and timelines of and lodgement by shareholders of their voting on resolutions to be put to general meetings.

Shareholders are encouraged to attend general meetings and ask questions of the Chairman and the Board.

The external auditor attends general meetings and is available to answer shareholders’ questions concerning the conduct of the audit, the preparation and content of the auditor’s report, the accounting policies adopted and audit independence.

Shareholders may raise any issues or concerns at any time by contacting the Company. Shareholders should email their questions or comments to investor.relations@iag.com.au or write to the Chairman or Company Secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000.

7. RISK MANAGEMENT
Managing risk is central to the sustainability of our business and delivery of value to shareholders. The Group’s international risk management framework is based on the interaction of the oversight structure, internal policies, key management processes and culture.

INternational Risk Management Framework

<table>
<thead>
<tr>
<th>EXECUTION ROLES</th>
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<tbody>
<tr>
<td>CEO, CFO &amp; Executive Team</td>
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<tr>
<td>Chief Risk Officer (CRO) &amp; Group Actuary</td>
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<tr>
<td>Corporate Treasurer</td>
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<tr>
<td>Group Risk/Regional CRO Functions</td>
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<tr>
<td>Group Legal</td>
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<tr>
<td>External/Approved Auditor</td>
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<tr>
<td>Internal Audit</td>
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<tr>
<td>Consulting Actuaries</td>
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<tr>
<td>Business Unit Risk Functions</td>
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<td>Project Managers</td>
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<td>All Managers</td>
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<td>Entire Workforce</td>
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<th>OVERSIGHT ROLES</th>
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<tr>
<td>IAG Board</td>
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<td>IAG Risk Management &amp; Compliance Committee (RMCC)</td>
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<tr>
<td>IAG Audit Committee</td>
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<tr>
<td>Nomination, Remuneration &amp; Sustainability Committee (NRSC)</td>
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<tr>
<td>Subsidiary Boards and Audit/Risk/Compliance Committees</td>
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<thead>
<tr>
<th>GROUP MANAGEMENT COMMITTEES</th>
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<tr>
<td>Executive Committee (EXCO, “EXCO Week”)</td>
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<tr>
<td>Group Underwriting &amp; Pricing Policy Committee (UPPCo)</td>
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<td>Group Asset &amp; Liability Committee (ALCo)</td>
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<tr>
<th>BOARD</th>
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<td>Customers</td>
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<td>Shareholders</td>
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<td>Community</td>
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<td>Regulators</td>
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<tr>
<th>EXTERNAL STAKEHOLDERS</th>
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<tr>
<td>Business Stakeholders</td>
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<tr>
<td>Customers</td>
</tr>
<tr>
<td>Shareholders</td>
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<tr>
<td>Community</td>
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<tr>
<td>Regulators</td>
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</tbody>
</table>

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The underlying principles that influence the Group’s approach to risk management are:

- Risk is part of business: risk management is not about trying to avoid all risks, rather risks need to be identified, understood and assessed against the levels of risk the Group is willing to take, and appropriately managed and monitored; and
- A proactive risk management culture provides the foundation for appropriate and sustainable risk management.

7a. Oversight structure
The following key forums and roles oversee the Group’s management of risk. These are summarised below and detailed in approved charters and role descriptions.

**Executive management committees**

**Executive Committee (EXCO)**
The EXCO provides the operational oversight and management of the Group’s risks and risk management framework. EXCO is complemented by two other executive committees that oversee the Group’s risk management framework:

- The Asset & Liability Committee (ALCo);
- The Underwriting & Pricing Policy Committee (UPPCo).

EXCO is responsible for:

- Reviewing corporate strategies and the performance of the Group and its business units compared to budgets and corporate plans;
- Monitoring the Group’s operational risks;
- Authorising capital allocation to major projects within financial delegation limits approved by the Board;
- Reviewing the Group’s performance in the areas of health, safety, environment and community performance;
- Reviewing human resource performance and reward strategies; and
- Promoting and reinforcing the Group’s risk management culture.

EXCO comprises Mr Michael Hawker (Chair) and his Group Executive team.

**Asset & Liability Committee (ALCo)**
The role of ALCo is to allow the Group’s senior management to:

- Formulate recommendations to the Board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- Oversee the ongoing implementation of, and compliance with, the Group’s Risk Management Strategy (RMS) and the Group’s Reinsurance Management Strategy (REMS); and
- Report to the Risk Management & Compliance Committee concerning compliance with, and the effectiveness of, the RMS.

Its members include Mr Michael Hawker (Chair) and Group Executives with operational and financial roles and other key senior management with responsibility for finance, treasury, actuarial, investment, reinsurance and capital planning functions.

**Underwriting & Pricing Policy Committee (UPPCo)**
The role of UPPCo is to provide the Group’s senior management with a forum in which to:

- Establish or modify the Group’s pricing principles and framework;
- Determine and monitor Group underwriting standards; and
- Monitor Group insurance risk accumulations and reinsurance requirements.

Its members include Mr Michael Hawker (Chair) and the Group Executives with operational and financial roles and other key senior management with responsibility for insurance strategy, pricing, underwriting, actuarial and reinsurance functions.

7b. Internal policies
The RMS details the Group’s principles, risk appetite, policies, key controls and monitoring processes for managing the risks outlined in the diagram ‘IAG’s Risk Categories’.

The main aim of the RMS is to describe the risk management framework within the Group. The RMS is a primary input to, and evolves with, IAG’s corporate strategy. It is a statement of minimum acceptable standards for managing the full spectrum of risks associated with pursuing corporate objectives and fulfilling the Group’s purpose.

The RMS is reviewed annually by the Risk Management & Compliance Committee before being recommended for adoption by the IAG Board.

7c. Key risk management processes
Management employs the following key processes to meet, as well as monitor, the requirements of the Group’s RMS.

**Management Assurance Framework**
This is a framework of self-assessment questions posed to, and answered by, management relating to the effectiveness of risk management processes and internal controls. The answers support the CEO, CFO and Board declarations on risk management, internal control and external financial reporting.
Risk Profiling
Each Business Unit identifies, assesses, and designs controls and related action plans for risks to achieving business objectives.

Risk Reporting
Reporting on risk management initiatives and issues is supplied to:
- EXCO by each Business Unit;
- ALCo and UPPCo for the specific risks that these bodies oversee;
- The IAG Risk Management & Compliance and Audit Committees; and
- Regulators and industry groups, where relevant and appropriate.

Internal Audit
Internal independent reviews of key risk areas, processes, projects and management assertions about risk management and internal control are undertaken by the internal audit function (Group Risk Assurance). It reports to the Chief Risk Officer and the IAG Audit Committee.

Independent Auditor’s Reviews
External independent reviews of key financial risk areas, processes and issues are also carried out by the independent auditor.

7d. Culture
The Board and management actively promote a culture of integrity, transparency, teamwork, meritocracy, and social responsibility, and encourage early and open communication of risk. To facilitate this culture, open access is provided to the CEO and the Chairs of the IAG Board and its standing Board committees.

In particular, the Group has established:
- Mechanisms for rapid escalation of important matters to relevant executives and/or Board members;
- Performance incentives for management aimed at encouraging a proactive risk management culture; and
- A whistleblowing process through ActionLine.

8. COMMUNITY AND ENVIRONMENT
The Group recognises that its business has an impact on the community, the environment and the wider economy, and believes it must operate in a way that responds to these impacts effectively to meet its commitments to shareholders, customers and employees.

As such, the Group acknowledges that the sustainability of its businesses is directly tied to the sustainability of the communities in which it operates. The Group’s purpose and values have been built on the premise that returns to shareholders will be enhanced by conducting business in a way that creates value for societies across environmental, social and economic dimensions.

Social responsibility is a basic foundation for the way the Group operates. The Group is committed to ensuring it has appropriate policies and agreed practices to guide its actions, including employee practices, conduct in the marketplace, environmental care, governance and ethical conduct, occupational health and safety, human rights and community involvement.

The Group provides information on its social, economic and environmental performance against a series of indicators through its annual Sustainability Report, which is available at www.iag.com.au. A selection of these indicators is included in this report. In addition, the Group’s Statement of Commitment to Community, Safety and the Environment is available on this website.

Ongoing stakeholder dialogue is a key element that drives the Group’s sustainability-based initiatives. IAG has continued to undertake extensive stakeholder mapping for key issues and activities in the business. This mapping informs the Group’s strategy and approach to managing many of these issues. In addition, IAG has conducted ongoing research of stakeholder perceptions of the Group’s sustainability strategy, and tested the extent to which stakeholders believe that IAG is successfully addressing relevant social and environmental issues. The research tests the perception of stakeholders to questions such as how well the Group works with others to improve home, road and workplace safety, and how the Group shows real leadership on the issue of climate change. Results from the ongoing research help to shape the Group’s strategies.

The Group’s Expert Community Advisory Committee, established in 2006, has advised the Board and executives throughout the year on economic, social, environmental and cultural issues that may impact the Group’s standing within the communities in which it operates.

The Group acknowledges that its social impact also occurs indirectly through its suppliers, vendors and contractors. Accordingly, it has established Supplier Selection Guidelines which set minimum standards on social and environmental issues that must be met by contractors of services and suppliers for the purchase, hire or lease of equipment and materials.

In addition to providing guidelines, the Group is increasingly factoring sustainability performance indicators into its ongoing performance management process with major suppliers.

Finally, through some of IAG’s major operating brands such as NRMA Insurance, SGIO and SGIC, several customer offers have been introduced that encourage positive sustainability outcomes and appeal to customer attitudes. For example, NRMA Insurance, SGIO and SGIC now offer lower motor insurance premiums for highly fuel efficient vehicles, plus offer opportunities for customers to offset the carbon emissions from their vehicles via the ‘Climate Help’ website (available at www.climatehelp.com.au).

NRMA Insurance has also been trialling a new customer service to offer free collection of damaged home items from customers’ homes that are the subject of insurance claims. The items are either on-sold for re-use or recycled via specialist recyclers. IAG will continue to investigate and implement practical customer offers that make business sense and have concurrent social and environmental benefits.

9. REMUNERATION FRAMEWORK
Details of the Group’s remuneration policies for its Non-executive Directors and Executives, the relationship of these policies to IAG’s performance and details of the remuneration paid to the Non-executive Directors and to relevant executives are disclosed in the Remuneration Report commencing on pages 40 to 58.

9a. Performance assessment – Executives
Financial and non-financial goals are set for each executive in conjunction with IAG’s Chief Executive Officer (IAG CEO) at the commencement of each financial year. The goals are stretch goals and are designed to encourage executives to strive for exceptional performance. Measuring achievement against these goals is the basis for assessing an individual executive’s performance. At the end of the financial year the IAG CEO completes a formal review of each executive’s performance. This assessment is the basis for determining any short-term incentive payments and for allocating long-term incentives, both of which require approval by the NRSC. Financial and non-financial goals and performance of IAG’s CEO are determined and assessed by the Board using the approach outlined above.

Further detail on short- and long-term incentives of the IAG CEO and Executives are set out in the Remuneration Report.