Item 1. IAG’s Approach to Corporate Governance

A. Evolving Framework
The Group is committed to attaining a high 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.

B. Regulatory Environment
The regulatory environment in which the Group conducts its business continues to have a major influence on the Group’s corporate governance practices. Sound regulatory regimes are required to assist with stability and sustainability of the general insurance sector in the countries the Group operates or intends to operate.

The Group believes that active engagement with governments, regulators and 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, the 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 general 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 general insurance industry. The Group has also participated in a number of reviews of the New Zealand (NZ) regulatory and legislative framework.

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, risk management, prudential and financial reporting standards and practices that have particular application to the general insurance industry.

The Group has chosen to adopt early the Australian Securities Exchange (ASX) Corporate Governance Council’s Corporate Governance Principles and Recommendations (2nd edition) (Principles) and report against them in this corporate governance statement.

Throughout the reporting period, the Group has complied with the Principles.
ITEM 2. THE BOARD OF DIRECTORS
A. 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 interests of the shareholders and collectively oversee and appraise the strategies, policies and performance of the Group.

The board is responsible for oversight of the Group, including:

■ driving the strategic direction of the Group by setting goals and policies, and approving Group strategies and the annual corporate plan;
■ selecting, regularly evaluating and, if necessary, replacing the chief executive officer (CEO);
■ 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 Group chief financial officer (CFO) 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 performance of the Group, including all the day to day operations and administration of the Group, to the CEO, who is responsible for:

■ 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 CEO 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 annexed to the IAG Board Charter on 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 CEO in that regard. The roles of the chairman and the CEO are separate.

B. 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 eight.

The board currently comprises seven non-executive directors and one executive director, Michael Wilkins.

The board considers its size and composition at least annually. In considering the size and composition of the board, directors 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 on pages 9 to 11.

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 under the Charter 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;
■ 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 an arrangement 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. 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.
C. 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 management.

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.

D. 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 has the 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 IAG (AT THE DATE OF THIS STATEMENT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>James Strong</td>
<td>7 years</td>
</tr>
<tr>
<td>Yasmin Allen</td>
<td>3 years and 9 months</td>
</tr>
<tr>
<td>Philip Colebatch</td>
<td>1 year and 8 months</td>
</tr>
<tr>
<td>Hugh Fletcher</td>
<td>1 year</td>
</tr>
<tr>
<td>Neil Hamilton*</td>
<td>8 years and 2 months</td>
</tr>
<tr>
<td>Anna Hynes</td>
<td>1 year</td>
</tr>
<tr>
<td>Rowan Ross*</td>
<td>8 years and 1 month</td>
</tr>
<tr>
<td>Brian Schwartz</td>
<td>3 years and 8 months</td>
</tr>
<tr>
<td>Phillip Teywman</td>
<td>Appointed 9 July 2008</td>
</tr>
</tbody>
</table>

* Neil Hamilton and Rowan Ross retired from the board on 31 August 2008.

E. 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 F; and
- the expectation that directors will abide by the Company’s Code of Ethics, Continuous Disclosure Policy and Security Trading Policy.

F. MEASURING THE PERFORMANCE OF DIRECTORS
The Nomination, Remuneration & Sustainability Committee (NRSC) conducts a formal review of the board’s performance, composition and size at least every three years. 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.

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.

G. BOARD OPERATIONS
The board meets formally at least eight times during the year. Scheduled board meetings are planned to be held interstate and in NZ annually.

Directors were also involved in a number of additional board meetings for specific purposes which, during the past year, principally related to the Group’s response to a takeover proposal from QBE Insurance Group.

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, ask incisive, robust questions and require accurate, honest answers.

The board has unfettered access to Group executives, senior management and advisers.

Directors’ attendance at board and committee meetings held during the year are shown at page 12 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 CEO and/or management representatives present. The board usually also meets with the CEO (without other executive management present) at the commencement of each scheduled 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 hard copy form or may access and download this information from a secure website established for this purpose.

ITEM 3. COMPANY SECRETARIES
The Company has appointed two company secretaries who are responsible to the board for ensuring board procedures are complied 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 11.
ITEM 4. STANDING COMMITTEES

The Company has three standing board committees, each with charters and established operating procedures. Copies of the committee charters, each of which was updated during the past year, are available on IAG’s website www.iag.com.au.

A. COMMITTEE PROCESSES

All standing board committees are required to have at least three members and currently comprise only independent non-executive directors. Each committee meets at least four times each year. The committees have unfettered 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 board meeting immediately following each committee meeting and copies of all committee minutes are made available to the full board.

Each committee annually reviews fulfillment 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.

B. NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE

The four members of the NRSC are currently Brian Schwartz (Chairman), Yasmin Allen, Rowan Ross until 31 August 2008 and James Strong.

The main responsibilities of this committee include:

- formally reviewing board performance, size and composition 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 the CEO 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 CEO;
- reviewing management succession and leadership development plans for executive and other key management 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, compliance with IAG’s published social, environmental and ethical responsibility policies and practices and the level of their integration into the business; and
- considering the social, environment and ethical impacts of the Group’s business practices and setting standards for social, environmental and ethical practices.

C. AUDIT COMMITTEE

The three members of the Audit Committee are currently Yasmin Allen (Chairman), Hugh Fletcher and 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 the 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 firm 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 annual 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;
- making recommendations to the board on the appointment and removal of the Group’s appointed actuaries; and
- reviewing the terms of appointment, reappointment and removal of the Group’s external peer review 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.

D. RISK MANAGEMENT & COMPLIANCE COMMITTEE

The four members of the Risk Management & Compliance Committee (RMCC) are currently Rowan Ross (Chairman) until 31 August 2008, Phillip Colebatch, Anna Hynes and Neil Hamilton until 31 August 2008.

The main responsibilities of this committee include:

- reviewing and recommending for approval by the board the Group’s Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS);
- 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;
- receiving reports from management on the Group’s risk management framework to identify, assess and monitor all material group risks, including: strategic, market (including investment, derivatives, liquidity), insurance (including product, pricing, underwriting, liability, claims management and reinsurance risks), credit and operational risks, to ensure the effective management of all such risks;
- reviewing and receiving reports from management in relation to the effectiveness of the Group’s risk management framework and internal control systems;
- reviewing and monitoring the effectiveness of, and approving the terms of reference for, key risk management governance frameworks, including management committees;
■ reviewing and approving the reinsurance renewal strategies and 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;
■ ensuring that policies and procedures are in place for Group employees to confidentially raise concerns and that these are appropriately addressed;
■ approving the scope, cover and cost of the Group’s corporate insurance program; and
■ reviewing the Group’s crisis management, business continuity and disaster recovery plans.

The RMCC 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.

ITEM 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 Groupwide ethical principles, outlined in the IAG Code of Ethics, The Way We Choose to do Business.

A. 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 its employees they should feel assured that employees will act in a responsible, ethical, transparent and honest way, wherever the Group operates.

The Code applies to all employees of entities where IAG has majority ownership or which are otherwise to be considered IAG subsidiaries and to all non-executive directors.

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.

Copies of the Codes of Conduct for Australia and NZ are available at the Group’s website www.iag.com.au.

B. 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.

C. CONTINUOUS DISCLOSURE POLICY AND SECURITY TRADING POLICY

The Group’s Continuous Disclosure Policy and Security Trading Policy reinforce its commitment to continuous disclosure, as well as the responsibility of all employees regarding inside 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 inside 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 trade in IAG securities in the four week trading window beginning 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 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.

Each of the IAG directors is required to notify the Company of the existence of any margin loans or similar financial products to which they or their associates are a party in relation to any IAG securities where the percentage of a class of IAG securities held by the IAG directors in aggregate exceeds 1% of the total number of securities on issue.

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.

ITEM 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 IAG’s website, www.iag.com.au.

In accordance with its Continuous Disclosure Policy, IAG is committed to ensuring all investors have access to information on IAG’s financial performance. IAG posts on its website all investor and media material released to the ASX, including:
■ annual and interim reports;
■ investor and media releases and presentations of half and full year results;
■ investor and media releases and presentations to the AGM;
■ notices of general meetings and explanatory material;
■ webcasts of CEO and CFO presentations at half and full year results and the AGM;
■ the chairman’s and CEO’s addresses to the AGM;
■ investor and media releases and presentations regarding divestments and acquisitions;
■ investor and media presentations given at investor strategy sessions and other one off events; and
■ all other information released to the market.

Copies of all ASX announcements, media releases and financial information since the Company was listed on the ASX in 2000 are available on the Company’s website.

There are approximately 58,000 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. The Company has recently introduced a new email system to alert security holders who register for this service when new media releases, financial announcements, presentations and annual reports are released to the market by the Company.
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, annual review, half year report and at the AGM.

The Group is mindful of the need to consider 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.

Electronic proxy and direct voting are available to IAG shareholders and help to facilitate ease and timeliness of and lodging 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, Australia.

ITEM 7. RISK MANAGEMENT

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

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.

A. 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.

The Executive Committee (EXCo) provides the operational oversight and management of the Group's risks and risk management framework.

The EXCo is responsible for:

- reviewing corporate strategies and the performance of the Group and its business units compared to budgets and corporate plans;
- overseeing implementation of board approved policies;
- formulating recommendations to the board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- overseeing the ongoing implementation of, and compliance with, the Group's RMS and REMS and monitoring the Group's risks;
- authorising the ongoing implementation of, and compliance with, the Group's RMS and REMS and monitoring the Group's risks;
- conducting periodic financial performance reviews of the Group's businesses;
- reviewing the Group's performance in the areas of health, safety, environment and community performance;
- reviewing risk governance arrangements established by the Group's corporate office and business units;
- reviewing human resource performance and reward strategies; and
- promoting and reinforcing the Group's risk management culture.

The EXCo comprises Michael Wilkins (Chairman) and his Group executive team.

Management is currently reviewing the Group's executive risk management structures, including its remaining Group executive committees, the Asset & Liability and the Underwriting & Pricing Policy committees, with a view to streamlining these structures.

B. INTERNAL POLICIES

The RMS describes the Group's overarching risk management policy. This includes risk governance processes, the Group's risk appetite, key accountabilities and minimum standards relating to key risk management processes. The RMS also highlights the operational policies governing the required management of certain categories of risk, 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 the Group's corporate intent.

The RMS is reviewed annually by the RMCC before being recommended for adoption by the board.

C. KEY RISK MANAGEMENT PROCESSES

The board and management employ 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 every six months 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.

The board has received assurance from the CEO and CFO that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Underpinning this Group level CEO/CFO assurance is assurances received from business unit CEO's plus appropriate executive level management attesting to the effectiveness of business unit risk management and internal control processes and assurance as to substantial compliance with the Group's RMS. In addition to this periodic assurance process, the Group's risk management and internal audit functions provide regular reports to the RMCC and Audit Committee on the operation of the Group’s risk management framework, the status of key risks in relation to the Group’s risk appetite, details of significant audit findings, risk and compliance incidents, and risk framework changes.

INTERNATIONAL RISK MANAGEMENT FRAMEWORK
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;
- the RMCC and Audit Committee; and
- regulators and industry groups, where relevant and appropriate.

In addition, the RMCC and Audit Committee receive regular reports monitoring the status of the Group’s risk appetite and enterprise risk profile which shows trends of each of the Group material risks and their estimated impact on the Group.

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 audit & risk). The head of this function reports to the group executive, corporate office and the 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.

D. 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 board and its standing 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.

ITEM 8. 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 on pages 16 to 29.

A. PERFORMANCE ASSESSMENT—EXECUTIVES
Financial and non financial goals are set for each executive in conjunction with the 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 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 the CEO are determined and assessed by the board using the approach outlined above.

Performance evaluations for senior executives took place during the past year in accordance with the above process. Further detail on short and long term incentives of the CEO and executives are set out in the remuneration report on pages 17 to 20.

ITEM 9. RESPONDING TO OUR STAKEHOLDERS
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.

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 reports annually on its social, economic and environmental performance against a series of indicators. This year, the results of sustainability performance will for the first time be incorporated into the annual review. This demonstrates the ongoing commitment to ensuring sustainability issues are considered as part of IAG’s overall performance. The results across the indicators can also be found at IAG’s website, www.iag.com.au.

Ongoing stakeholder dialogue is a key element that drives the Group’s sustainability based initiatives. IAG has continued to undertake extensive stakeholder dialogue on key issues and activities in the business. IAG conducts ongoing research of stakeholder perceptions of the Group’s sustainability work, and regularly tests the extent to which stakeholders believe that IAG is successfully addressing relevant social and environmental issues.

In the 2008 IAG employee engagement survey, Your Voice, 80% of IAG’s employees in Australia responded that they value IAG’s focus on balancing its social, environmental and financial responsibilities.

The Group’s Expert Community Advisory Committee, established in 2006, has advised Group 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.

Finally, through some of IAG’s major operating brands such as NRMA Insurance, SGIO and SGIC, several customer offers encourage positive sustainability outcomes and appeal to customer attitudes. For example, NRMA Insurance, SGIO and SGIC continue to 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).

IAG will continue to investigate and implement practical customer offers that make business sense and have concurrent social and environmental benefits.