CORPORATE GOVERNANCE

INSURANCE AUSTRALIA GROUP (IAG) APPROACH TO CORPORATE GOVERNANCE

IAG 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, IAG promotes a culture that rewards performance, integrity, respect and a considered sense of urgency.

The regulatory environments in which IAG conducts its businesses continue to have a major influence on IAG’s corporate governance practices. Sound regulatory regimes are required to assist with stability and sustainability of the general insurance sector in the countries in which IAG operates or intends to operate.

IAG believes that active engagement with governments, regulators and industry and professional groups ensures that the interests of IAG 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, IAG 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.

IAG actively participates in the debate to improve Australia’s corporate governance regime, making submissions to Federal and State Government committees, reviews and inquiries and regulators in relation to new legislation and regulation affecting the general insurance industry. As part of IAG’s commitment to open and transparent communication, all Australian public government submissions are available to view in the News Centre on the IAG website at www.iag.com.au. IAG has also contributed to changes to the New Zealand regulatory and legislative framework.

IAG representatives also participate in forums, working parties, committees of domestic and overseas insurance industry associations, and 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. Consistent with this and IAG’s purpose, IAG became a founding signatory to the UN’s Principles for Sustainable Insurance (PSI) in June 2012, and in February 2013, IAG’s Chief Strategy Officer, Leona Murphy, was appointed Co-Chair of the UN PSI Board.

The key corporate governance practices followed by IAG and its people are summarised below. They are not an exhaustive list of all corporate governance practices in place at IAG. Copies of IAG’s Board and Board committee charters and key corporate governance policies are on IAG’s website at www.iag.com.au/about/governance.

Throughout the reporting period, IAG has complied with the Australian Securities Exchange (ASX) Corporate Governance Council’s Corporate Governance Principles and Recommendations (2nd edition) as outlined below.

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 THE BOARD

The Board has responsibility to protect the interests of policyholders and to shareholders for the performance, operations and affairs of IAG. The Board’s principal role is to govern, rather than manage, IAG. The directors represent and serve the interests of the shareholders and collectively oversee and appraise the strategies, policies and performance of IAG.

The Board is responsible for oversight of IAG, including:

- driving the strategic direction of IAG and approving Group strategies;
- approving significant corporate initiatives including major acquisitions, projects and divestments, and capital management transactions;
- setting IAG’s risk appetite;
- selecting appropriate candidates and recommending to IAG shareholders the re-election, election or removal of directors;
- evaluating Board processes and performance of the Board as a whole, as well as contributions by individual directors;
- monitoring management’s performance and the exercise of the Board’s delegated authority;
- evaluating regularly and, if necessary, replacing the chief executive officer (CEO);
- reviewing CEO, chief financial officer (CFO) and senior management succession planning; and
- setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, and social and environmental responsibility) are adhered to at all times.

Find out more about the Board’s responsibilities in the Board charter on IAG’s website at www.iag.com.au/about/governance.
1.2 APPOINTMENT TERMS
Formal appointment letters have been issued and signed by each non-executive director, including the chairman, to assist individual directors in understanding the role of the Board and the corporate governance principles and practices adopted by the Board. The letters formally document the basis of each director’s appointment, including the standard terms of their appointments.

The appointment letters also provide for:
- the right of non-executive directors to obtain independent professional financial and legal advice, at the Company’s expense, to assist with discharging their duties efficiently;
- the 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 2.8 below; and
- the requirement that directors abide by the Code of Ethics and comply with the IAG Continuous Disclosure and Security Trading Policies.

1.3 THE CHIEF EXECUTIVE OFFICER (CEO)
The Board has delegated responsibility for the overall management and profit performance of IAG, including all the day-to-day operations and administration of IAG, to the CEO, who is responsible for:
- fostering a culture of performance, integrity, respect and a considered sense of urgency;
- ensuring the ongoing development, implementation and monitoring of IAG’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 IAG are brought to the Board’s attention.

The CEO manages IAG in accordance with the policies, budget, corporate plan, strategies approved by the Board, and has the power to manage IAG, subject to the limits set out in the Charter of CEO Delegated Authority Limits attached to the Board charter at www.iag.com.au/about/governance.

1.4 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES
Financial and non-financial goals are set for each Group executive in conjunction with the CEO at the commencement of each financial year. The goals are stretch goals and are designed to encourage Group executives to strive for exceptional performance while ensuring IAG’s long term financial soundness. Measuring achievement against these goals is the basis for assessing an individual Group executive’s performance. The methods of assessment have been selected so that they can be objectively measured and verified. At the end of each financial year the CEO completes a formal review of each Group executive’s performance. These assessments are the basis for determining any short term incentive payments and for allocating long term incentives to Group executives, which are reviewed by the People and Remuneration Committee (PARC) and approved by the Board.

Financial and non-financial goals and performance of the CEO are determined and assessed by the Board using this approach.

Further detail on short and long term incentives of the CEO and Group executives is set out in the remuneration report.

Newly appointed Group executives have access to an orientation program which includes meetings with other members of the executive team and select senior managers to apprise them of the detail of IAG’s operations, financial position, strategies, and risk management framework.

PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE
2.1 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 Board currently comprises eight independent non-executive directors, and one executive director, Michael Wilkins, the CEO of IAG. The Board considers its size and composition annually. The Board’s policy is to ensure that the Board comprises directors who collectively have the relevant experience, knowledge, diversity and skills required for the Company. This takes into account IAG’s current size, market position, complexity and strategic focus. In reviewing its composition and requirements for director succession, the Board is also mindful of the corporate governance practices and requirements for directors of general insurance companies.

The Board has adopted a framework for effective director selection and Board succession to ensure that the Board’s skills, competencies and knowledge match the strategic objectives of IAG. Some key tenets of the framework are:
- determining the skills, competencies, behaviours and experience required for an effective Board and the nature and measurement of these competencies;
- the Board should demonstrate diversity in age, personality, gender, work and life experience and comprise people that think differently and have different backgrounds; and
- the adoption of a systematic and strategic approach for Board succession and a formal approach to director selection.

2.2 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 non-executive directors are free of any business or other relationship that could materially interfere with the independent exercise of their judgement. All current non-executive directors have confirmed their continued independence.
The Board will determine whether each director is independent, using the principles outlined in its charter. Find out more about this at www.iag.com.au/about/governance.

2.3 THE CHAIRMAN
The chairman provides leadership to the Board and IAG. The chairman presides at Board and general meetings of the Company. The chairman is an independent non-executive director and is responsible for ensuring the Board discharges its role, and works closely with the CEO in that regard.

2.4 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 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 fulfilment of its responsibilities under its respective charter. The performance of each committee is reviewed at the same time as the Board conducts its own review of performance.


2.5 APPOINTMENT OF DIRECTORS
The Board assesses the skills required to discharge competently the Board’s duties, having regard to the Company’s performance, financial position and strategic direction, including the specific knowledge, skills and experience that the Board determines as necessary for one or more of the directors to possess.

The Board assesses candidates for appointment and re-election as directors, either when a vacancy arises or if it is considered that the Board would benefit from the services of a new director. Particular attention is given to the mix of skills, experience, diversity and expertise of existing directors and how the candidate’s competencies will complement and balance these qualities.

The Company's constitution requires one third of eligible directors to retire from office each year. Eligible directors who retire may offer themselves for re-election by shareholders at the annual general meeting. The Board advises shareholders of whether it supports the re-election of each retiring director by including a statement in the notice of annual general meeting. Any director appointed during the year to fill a casual vacancy or as an addition to the existing directors must stand for election at the next annual general meeting.

The Board may from time to time, and as considered appropriate, engage reputable recruitment consultants to assist the Board to identify suitable candidates for appointment to the Board.

2.6 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.

The Board has a tenure policy which applies 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, among other things, provides a standard tenure for a non-executive director of 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.

<table>
<thead>
<tr>
<th>INDEPENDENT NON-EXECUTIVE DIRECTORS</th>
<th>TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brian Schwartz (Chairman)</td>
<td>8 years and 7 months</td>
</tr>
<tr>
<td>Yasmin Allen</td>
<td>8 years and 9 months</td>
</tr>
<tr>
<td>Hugh Fletcher</td>
<td>5 years and 11 months</td>
</tr>
<tr>
<td>Philip Twyman</td>
<td>5 years and 1 month</td>
</tr>
<tr>
<td>Peter Bush</td>
<td>2 years and 6 months</td>
</tr>
<tr>
<td>Alison Deans</td>
<td>7 months</td>
</tr>
<tr>
<td>Raymond Lim</td>
<td>7 months</td>
</tr>
<tr>
<td>Nora Scheinkestel</td>
<td>2 months</td>
</tr>
</tbody>
</table>

The names of directors in office at the date of this report, their year of appointment, their designation as an independent non-executive or executive director and their experience, expertise and biographical details are set out on pages 13 to 16.

2.7 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 director's interests may conflict.

2.8 MEASURING THE PERFORMANCE OF DIRECTORS
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.
The Board conducts an internal review of its performance, composition and size at least every three years with assistance from external experts. A formal review of Board performance and succession was conducted in May 2012, with assistance and input from an independent Board performance expert. The review process involves the completion of questionnaires by directors and Group executives and interviews with the independent expert, the collation of results and discussion with individual directors and the Board as a whole led by the chairman.

Measures of a director’s performance include:
- contribution to Board teamwork;
- contribution to debates on significant issues and proposals;
- advice and assistance given to management;
- input regarding regulatory, industry and social developments surrounding the business; and
- in the case of the chairman’s performance, the fulfilment of his or her additional role as chairman.

**2.9 NON-EXECUTIVE DIRECTOR INDUCTION, EDUCATION AND TRAINING**

IAG encourages continuing professional education for each of its directors. All directors are expected to remain up to date in relation to issues affecting IAG, the general insurance industry, and their duties as directors. The right of non-executive directors to obtain independent professional financial and legal advice, at the Company’s expense, to assist with discharging their duties efficiently is noted in their letter of appointment. New directors have access to an induction program to introduce the executive team and the detail of IAG’s businesses. Induction includes individual meetings with the CEO, Group executives and senior management.

Workshops are conducted, as required, to assist directors’ education on topics which include reinsurance, capital, risk management and investment management. Directors have unfettered access to senior executives and the external auditor and are encouraged to meet with these executives to further their knowledge and understanding of the organisation.

Executive directors appointed to subsidiary and associated company Boards are offered and encouraged to undertake training to ensure they can continue to effectively and competently perform their roles as executive directors.

**2.10 BOARD OPERATIONS**

The Board meets formally at least seven times during the year. From time to time scheduled Board meetings are held interstate and overseas as required. Directors are also involved in a number of additional Board meetings for specific purposes. This year, among other activities, the Board travelled to Melbourne to meet the executive and senior management of the Company’s CGU business.

The Board meets each April and October with IAG’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 to require accurate, honest answers.

Directors’ attendance at Board and committee meetings held during the year is shown on page 16 in the directors’ report.

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 Group executives present) at the commencement of each scheduled Board meeting and without the CEO at the end 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 soft copy in advance of meetings.

**2.11 COMPANY SECRETARY**

All directors have access to the Company Secretary and the appointment and removal of the Company Secretary is decided by the Board.

The Company Secretary is responsible to the Board for ensuring Board procedures are complied with and also provides advice and counsel to the Board in relation to the Company’s constitution, corporate governance and other matters.

The qualifications and experience of IAG’s Company Secretary are set out on page 16.

**PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

IAG takes ethical and responsible decision making very seriously. It expects its employees and directors to do the same, as they are all accountable for ensuring that their behaviours, decisions and choices are:
- in accordance with all laws and regulations of the countries in which IAG operates; and
- consistent with IAG’s ethical principles as set out in IAG’s Code of Ethics and the IAG policies and standards that relate directly to their duties.

3.1 IAG CODE OF ETHICS
The IAG Code of Ethics has been developed to provide all Group officers, employees, and contractors 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 officer, employee, and contractor in IAG. This means that when IAG’s stakeholders interact with employees, they should feel assured that employees will act in a responsible, ethical, transparent and honest way, wherever IAG operates.

The Code applies to all Group officers, employees, and contractors 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.


3.2 DIVERSITY
Diversity is a key part of IAG’s strategy. IAG’s diversity ambition is:
To respect and value the different experiences of IAG’s people, and harness the opportunity and business benefits that diverse ideas and perspectives bring to IAG and stakeholders.

Diverse thinking is key to creating a culture of inclusion and ultimately increasing innovation, IAG’s ability to service its customers and improve business performance. This approach is supported by an ongoing focus on diversity demographics such as age, ethnicity and, gender.

Diversity activity
During the financial year, IAG took steps towards fulfilling its diversity ambition, including:
- providing parental leave benefits to offer one of the most generous and accessible parental leave programs in the financial services industry including 14 weeks paid parental leave and an additional six week ‘welcome back’ lump sum payment to all Australian based employees who are primary carers and return to work after having a child;
- introduction of the IAG family support program that provides support for people caring for children or the elderly;
- conducting a series of Inspiring Women Lunches providing an opportunity for all employees to network;
- flexibility around how, when and where work is done with leave arrangements that help employees address personal and family needs;
- increasing the awareness and commitment of IAG leaders to creating a diverse and inclusive workplace; and
- evaluating the Board’s skills and knowledge against the Group’s strategic direction including considering the diversity, skills, background and experience of current and new directors.

The IAG Diversity and Inclusion Working Group includes senior representatives from each of the key businesses. The PARC actively monitors progress of the IAG Diversity and Inclusion Working Group.

Diversity targets
IAG has publicly committed to a target of increasing the number of women in senior management positions to 33% by 2015.

A summary of women in the workforce is provided below:

<table>
<thead>
<tr>
<th>DIVERSITY OBJECTIVES</th>
<th>ACTUAL 2013</th>
<th>ACTUAL 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women in workforce</td>
<td>60 %</td>
<td>59 %</td>
</tr>
<tr>
<td>Board positions</td>
<td>25 %</td>
<td>25 %</td>
</tr>
<tr>
<td>Executive positions</td>
<td>29 %</td>
<td>25 %</td>
</tr>
<tr>
<td>Senior management positions</td>
<td>29 %</td>
<td>29 %</td>
</tr>
</tbody>
</table>

3.3 WHISTLEBLOWING
Employees are encouraged to raise any material matters of concern through IAG’s management structure as part of IAG’s objective of building a culture where people perform their duties in an ethical and appropriate manner. Open access is provided to the CEO and the chairs of the IAG Board and its standing Board committees. IAG has established mechanisms for rapid escalation of important matters to relevant executives and/or Board members.

IAG is proactive about preventing, detecting and investigating all instances of suspected serious inappropriate behaviour. ActionLine, an independent whistleblowers’ hotline, is a mechanism designed to capture and address 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 IAG’s management structure. This can be done anonymously through the external provider via web application, telephone, email and facsimile.

3.4 SECURITY TRADING POLICY
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 other employees (collectively, designated persons) may only trade in IAG securities in the four week trading window beginning two ASX trading days after IAG’s half year and full year results announcements and the annual general meeting 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 specified senior managers (Specified Persons) may only trade in IAG securities in these periods after they have received prior consent from the PARC and complied with any conditions on trading that the PARC imposes, subject again to not being in possession of inside information as defined by the law.

IAG monitors the percentage of each class of IAG securities held in aggregate by the directors. Where the directors holding, in the aggregate, of any class of IAG security reaches 1% the chair of the PARC will be notified immediately. Following such a notification, to the chair of the PARC, all directors will be required to disclose any secured loans to which they or an associate are a party to in relation to IAG securities and the key terms of each loan.

The PARC will determine, from time to time, whether an announcement is required under ASX Listing Rule 3.1 in relation to any loans notified to the PARC in accordance with the above.

Specified Persons may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements (such as Executive Performance Rights and Deferred Award Rights) to IAG securities. Specified Persons are also prohibited from entering into transactions or arrangements which operate to limit the economic risk of their vested security holdings which form part of their mandatory holdings of IAG securities. Further details in relation to IAG directors’ and Group executives’ holdings can be found at page 31 in the remuneration report.

As required under Listing Rule 12.9, this Security Trading Policy has been lodged with the ASX. Find out more about IAG’s Security Trading Policy on the IAG website at www.iag.com.au/about/governance.

3.5 ENGAGING WITH AND RESPONDING TO STAKEHOLDERS
IAG 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 takes into account and responds to these impacts effectively to meet its commitments to shareholders, customers, employees and other stakeholders.

IAG 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, workplace health and safety and community involvement.

IAG reports annually on its social, economic and environmental performance against a series of indicators. The results of IAG’s broader non-financial performance are summarised in the Company’s Annual Review. This approach to the reporting of IAG’s financial and non-financial performance demonstrates the ongoing commitment to ensuring social, economic and environmental issues are considered together as part of IAG’s overall performance.

Ongoing stakeholder dialogue is a key element to driving sustainable outcomes for IAG and our stakeholders and is embedded not only within IAG’s corporate strategy but also in governance frameworks. IAG continues to undertake extensive stakeholder dialogue on key issues and activities in the business and regularly tests the extent to which stakeholders believe that IAG is successfully addressing relevant social and environmental issues.

During the financial year, IAG established a long term Group wide strategic program called Risk Matters. The program brings together IAG corporate and community partners, government and academic experts and IAG employees to discuss how the Group drives shared value and sustainable outcomes for IAG’s customers, the communities that IAG operates in, and the Group's business, through the proactive management of risk. IAG's goals are to create an improved understanding and consideration of risk at all levels of decision making, safer and more resilient communities (driving sustainable community outcomes) and improved affordability and accessibility of insurance.

PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE (ARMCC)
The four non-executive directors who are members of the ARMCC are currently Philip Twyman (Chair), Yasmin Allen, Alison Deans and Hugh Fletcher. All members of this committee have financial management experience as shown in their biographies on pages 14 to 15 of this report.

The main role of this committee is to assist the Board in discharging its responsibilities in relation to ensuring:
- the integrity of IAG and subsidiary external and internal financial reporting, including compliance with applicable laws, regulations, and other requirements in relation to external financial reporting;
- that directors and management are provided with high quality financial and non-financial information that can be relied on by them to make informed judgements;
- that appropriate and effective systems of internal, accounting and financial controls are in place and maintained to safeguard IAG’s financial and physical resources;
- that sound risk management and compliance frameworks are in place to identify, assess and manage risks within IAG’s risk appetite determined by the Board; and
- that the independence of the external auditor, the internal auditor, and the Group Actuary is safeguarded.
The ARMCC charter, which provides details of the committee’s responsibilities, is available at www.iag.com.au/about/governance.

A framework is used by the ARMCC to assess total fees paid to the external auditor and which, among other things, sets out guiding principles for dealing with the external auditor firm for non audit services and the rotation of the external auditor.

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

**PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE**

IAG’s Continuous Disclosure Policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding inside information.

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 IAG Continuous Disclosure Policy is available online at www.iag.com.au/about/governance.

IAG is committed to timely factual and balanced disclosure ensuring investors are informed of material developments for IAG. Care is taken to ensure announcements do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of information when making investment decisions.

All announcements are subject to a minimum of two sign off reviews at senior levels within IAG before release to the ASX. The CEO or CFO jointly with the chairman or any other director must jointly approve announcements of particular significance where time does not permit a full Board to be convened.

All IAG announcements to the ASX since July 2000 are available on IAG’s website, www.iag.com.au.

Policies have been established and designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance. 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 year and full year results;
- investor and media releases and presentations to the annual general meeting;
- notices of general meetings and explanatory material;
- webcasts of CEO and CFO presentations at half year and full year results announcements;
- the chairman’s and CEO’s addresses to the annual general meeting;
- 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.

**PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS**

IAG maintains a Shareholder Centre page on its website at www.iag.com.au/shareholder which provides shareholders with access to their holdings of IAG securities. This web page is actively promoted to shareholders.

Approximately 20.8% of total shareholders at 1 August 2013, have registered their email address. Shareholders who use this service will be advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available to be accessed via the internet.

IAG also has an email system for investors, beneficial owners, and other interested parties who may not be shareholders to receive important media releases, financial announcements, presentations and annual reports as they are released to the market through the ASX.

Media coverage of key events is also sought as a means of delivering information to shareholders, investors and the market. Formal communication with shareholders and investors is also conducted via the annual and interim reports, annual review and at the annual general meeting which is also webcast for viewing by interested parties including shareholders.

IAG is mindful of the need to adopt best practice in the drafting of notices for general meetings and other communications to ensure that they are honest, accurate, informative and not misleading. All annual general meeting material can be found on IAG’s website www.iag.com.au/shareholder/agm.
Online proxy and direct voting are available to IAG shareholders and authorised intermediaries such as custodians to facilitate lodgement by shareholders of their votes on resolutions put to general meetings of shareholders.

Shareholders are encouraged to attend general meetings and ask questions of the chairman and the Board. Shareholders who are unable to attend the general meeting, are encouraged to ask questions either online or when returning their notice of meeting. Their questions are collated and during the course of the general meeting the chairman or CEO will respond where possible to the issues raised.

The external auditor attends annual 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 auditor independence.

Shareholders and investors may raise any issues or concerns at any time by contacting the company by email. Questions or comments should be addressed to investor.relations@iag.com.au. Alternatively shareholders and investors can write to the chairman or company secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000, Australia.

**PRINCIPLE 7. RECOGNISE AND MANAGE RISK**

Managing risk is central to the sustainability of IAG’s business and delivery of value to shareholders. IAG’s risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture.

**7.1 OVERSIGHT STRUCTURE**

The key underlying principles that influence IAG’s approach to managing risk are documented in the Risk Management Strategy (RMS) and are as follows:

- managing risk is an integral part of achieving IAG’s strategic objectives and making decisions;
- accepting risk management is not trying to avoid all risks. Rather, risks need to be identified, understood and assessed against the levels of risk IAG is willing to take and those risks are appropriately managed and monitored;
- to consider the reasonable expectations of all external stakeholders including customers, shareholders, the community and regulators in considering factors which bear upon IAG’s continued good standing;
- to comply with IAG’s legal, regulatory and statutory obligations; and
- a proactive risk management culture at all staff levels within IAG, providing the foundation for appropriate and sustainable risk management as shown below.
The risk categories identified by the RMS process are as follows.

<table>
<thead>
<tr>
<th>RISK CATEGORIES</th>
<th>DEFINITION OF RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic risk</td>
<td>Strategic risk may arise from the following sub-categories:</td>
</tr>
<tr>
<td></td>
<td>1. Strategic Objectives: Flawed strategy or the failure to meet strategic initiatives due to capital constraints, divisional strategic misalignment, technology and other resource inhibitors.</td>
</tr>
<tr>
<td></td>
<td>2. Poor Business Decisions: Failure to complete an appropriately detailed due diligence of the reasonably available information before making business decisions, or failing to take the reasonably available information into account.</td>
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<tr>
<td></td>
<td>3. Business Environment Changes: Changes in the business environment or lack of responsiveness to changes in the business environment.</td>
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<tr>
<td></td>
<td>4. Group Contagion Risk: The potential impact of risk events, of any nature, arising in or from membership of the IAG corporate Group.</td>
</tr>
<tr>
<td>Insurance risk</td>
<td>Insurance risk may arise from the following sub-categories:</td>
</tr>
<tr>
<td></td>
<td>1. Product Pricing: Inadequate or inappropriate product pricing.</td>
</tr>
<tr>
<td></td>
<td>2. Product Design: Product defects due to inadequate product design, variation, delivery or maintenance.</td>
</tr>
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<td></td>
<td>3. Reserving: Inadequate or inappropriate reserving including unforeseen, unknown or unintended liabilities that may eventuate.</td>
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<tr>
<td></td>
<td>4. Claims Management: Inadequate or inappropriate claims management including overpayment, failure to collect recoveries, fraudulent misrepresentation or staff operating outside of their authority.</td>
</tr>
<tr>
<td></td>
<td>5. Underwriting: Inadequate or inappropriate underwriting. For example, failure to comply with the underwriting process, including staff operating outside of their authority.</td>
</tr>
<tr>
<td></td>
<td>6. Insurance Concentration Risk: Adverse concentration exposure. For example, location catastrophe exposure, underwriting segment factor, industry or distribution channel.</td>
</tr>
<tr>
<td>Reinsurance risk</td>
<td>Reinsurance risk may arise from the following sub-categories:</td>
</tr>
<tr>
<td></td>
<td>1. Coverage: Insufficient or inappropriate reinsurance coverage arising as a result of:</td>
</tr>
<tr>
<td></td>
<td>- incorrect use of models used to calculate amount of cover required;</td>
</tr>
<tr>
<td></td>
<td>- the cover provided by the reinsurance program(s) does not align with original underwriting exposures; and</td>
</tr>
<tr>
<td></td>
<td>- latent/emerging exposures.</td>
</tr>
<tr>
<td></td>
<td>2. Underwriting / Pricing: Inadequate underwriting and/or pricing of reinsurance exposures retained by IAG's reinsurance captives.</td>
</tr>
<tr>
<td></td>
<td>3. Claims Management: Inadequate or inappropriate reinsurance recovery management.</td>
</tr>
<tr>
<td></td>
<td>4. Contract Terms: Reinsurance arrangements not legally binding or poor management of reinsurance recoveries.</td>
</tr>
<tr>
<td></td>
<td>5. Reinsurance Concentration Risk: Over-exposure to insurance risks based on factors such as geographical location, types of cover, industry types, etc or a high reliance on a number or reinsurers.</td>
</tr>
<tr>
<td></td>
<td>The credit counterparty concentration risk to reinsurers is covered under ‘Financial Risk – Credit Risk’.</td>
</tr>
<tr>
<td>Financial risk</td>
<td>Financial risk may arise from the following sub-categories:</td>
</tr>
<tr>
<td></td>
<td>1. Liquidity Management: Insufficient cash resources to meet financial obligations as and when they fall due (without affecting either the daily operations or the financial condition of the Group).</td>
</tr>
<tr>
<td></td>
<td>2. Market Risk - Asset Concentration: Risk of over-exposure to a particular asset class outside of the Strategic Asset Allocation or the limits in the individual Investment Management Agreements.</td>
</tr>
<tr>
<td></td>
<td>4. Market Risk - Asset Prices: The risk that an asset’s value will negatively change due to a change in the absolute level of its market price.</td>
</tr>
<tr>
<td></td>
<td>5. Market Risk - Interest Rates: The risk that an investment's value will negatively change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.</td>
</tr>
<tr>
<td></td>
<td>6. Market Risk - Derivative Exposures: Movements in underlying physical positions not being matched by (opposite) movements in the value of the derivative positions.</td>
</tr>
<tr>
<td></td>
<td>7. Credit Risk: The risk arising from a counterparty’s failure to meet its obligations in accordance with the agreed terms. These counterparties include investments, reinsurers and premium debtors.</td>
</tr>
<tr>
<td></td>
<td>8. Capital Management: Failure to maintain adequate regulatory capital to meet the Australian Prudential Regulatory capital requirements or the Group's internal capital target.</td>
</tr>
</tbody>
</table>
Operational risk may arise from the following sub-categories:

1. **Fraud**: Any act or omission, by any person, made with dishonest or potentially illegal intent, to obtain a benefit or advantage, for one’s self or any other person.

2. **Management, Staff Practices & Safety**:
   - risks related to workforce planning;
   - behavioural risks; and
   - the risk of illness, injury, psychological harm or physical security to persons at IAG sites or whilst engaging in work activities.

3. **Supply & Distribution Chain**: A service provider, outsourcer, internal distribution channels disruption, non-performance or non-adherence to service level agreements that causes an impact on IAG’s business operations or its ability to manage risk effectively.

4. **Project & Change Management**: Failure to deliver the expected benefit of an initiative, or inadequate implementation of a project initiative.

5. **Process Management**: Human or system failure to deliver intended objectives.

6. **Business Continuity Management**: Any event that disrupts IAG’s business operations and/or performance.

7. **Compliance**: Failure to identify, interpret or comply with regulatory or legislative requirements.

8. **System Integrity / Security & Information Management**: Inadequate system design or capabilities to maintain business functionality, information security or information management.

The RMS is reviewed annually or as required to ensure it is materially correct by the ARMCC before being recommended for adoption by the Board. Roles and responsibilities of the Board and its standing committees, the ARMCC and the PARC, are set out elsewhere in this report.

**7.2 IMPLEMENTATION AND REPORTING**

The Executive Committee (EXCo) fulfils an advisory role to IAG’s CEO and provides the operational oversight of IAG’s risks, risk management framework and internal control system. EXCo comprises the CEO and the Group executive team. All Group executives are responsible for:

- overseeing implementation of Board-approved policies;
- overseeing the ongoing implementation of, and compliance with, IAG’s RMS, Reinsurance Management Statement (REMS), business insurance licenses, internal control system and monitoring IAG’s risks;
- authorising capital allocation to major projects within financial delegation limits approved by the CEO/Board;
- conducting periodic financial performance reviews of the business divisions;
- reviewing the performance in the areas of health, safety, environment and community;
- reviewing the effectiveness of governance practices established at the business division level;
- reviewing human resource performance and reward strategies; and
- promoting and reinforcing IAG’s risk management culture.

In addition to these, the corporate office Group executives are also responsible for:

- reviewing corporate strategies and the performance of IAG and its business divisions compared to budgets and corporate plans;
- formulating recommendations to the Board concerning issues related to capital management and risk management, including reinsurance, credit risk and asset allocation;
- conducting periodic financial performance reviews of IAG’s businesses; and
- reviewing the effectiveness of governance practices established at the IAG level.

IAG’s risk and governance and internal audit functions provide regular reports to the ARMCC on the operation of IAG’s risk management framework, the status of key risks, details of significant audit findings, risk and compliance incidents, and risk framework changes. The Board has delegated its risk management function to the ARMCC. The Board receives information on matters of particular significance and regular updates from the Chair of the ARMCC. Divisional risk and compliance functions also report regularly to divisional management and/or divisional committees.

**Risk reporting**

Reporting on risk management initiatives and issues is provided to:

- the Group executives;
- the ARMCC; and
- regulators and industry groups, where relevant and appropriate.

The ARMCC reviews IAG’s Enterprise Risk Profile. In addition, business division Group executives are required to attend and report to the ARMCC on the effectiveness of the risk management frameworks embedded in their respective business divisions.
Independent reviews
Internal Audit conducts independent reviews of the business divisions’ key risk areas, processes and projects. The head of this function reports to the Chief Strategy Officer and the ARMCC.

An independent party is also used to review and assess the adequacy and effectiveness of the IAG Risk Management Framework.

7.3 ASSURANCES
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.

PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY
8.1 PEOPLE AND REMUNERATION COMMITTEE (PARC)
The four members of the PARC are currently Yasmin Allen (Chair), Brian Schwartz, Peter Bush, and Raymond Lim.

The purpose of this committee is to:
- monitor the development and implementation of Group and divisional people and culture strategies;
- monitor the development and implementation of IAG’s workplace, health and safety framework and strategies;
- review succession plans for executives that report to the CEO and other senior executives;
- provide assurance to the Board relating to the effectiveness, integrity and compliance with IAG’s remuneration policies and practices;
- assess whether the Group Remuneration Policy is effective and complies with regulatory requirements on remuneration including those specified in the Corporations Act and APRA’s prudential standards;
- monitor the appropriateness and relevance of the Group Reward Strategy and approach to deliver the strategic goals of IAG; and
- oversee Board composition of designated IAG subsidiary and associated companies.

Find out more about the PARC charter, which lists the committee’s responsibilities, at www.iag.com.au/about/governance. The PARC is also empowered as the remuneration committee of IAG’s subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate remuneration committee.

8.2 IAG GROUP REMUNERATION POLICY
Details of IAG’s remuneration policies for its non-executive directors and senior executives, including details of the remuneration paid and the relationship to IAG’s performance are disclosed in the remuneration report on pages 26 to 42. The remuneration report also highlights the balance between fixed pay, short term incentive, long term incentive, and a minimum shareholding requirement for senior executives of IAG.