CORPORATE GOVERNANCE

INSURANCE AUSTRALIA GROUP LIMITED'S APPROACH TO CORPORATE GOVERNANCE

Insurance Australia Group Limited (IAG, the Group, or the Company) is committed to attaining the highest level of corporate governance to help ensure the future sustainability of the organisation and to create long term value for its shareholders. To achieve this, IAG aspires through its Spirit to be closer, braver and faster in all its interactions with customers, partners, and shareholders, and actively monitors corporate culture.

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

IAG believes that active engagement with governments, regulators and industry and professional groups helps ensure that the interests of IAG and its stakeholders are properly considered in the formulation of proposals to improve corporate governance, the general insurance regulatory and prudential regimes 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, particularly regulation affecting the general insurance industry. As part of IAG’s commitment to open and transparent communication, all Australian public government submissions are available in the News & Events area of IAG’s website at www.iag.com.au. IAG has also contributed to changes to the New Zealand regulatory and legislative framework.

IAG does not make direct donations to any political party. However, IAG does engage in the democratic process by participating in lunches, dinners, conferences or other events with political parties. IAG representatives will make a financial contribution to attend certain of these functions. Consistent with Australian legislative requirements, IAG discloses all political contributions that are made to political parties. These are displayed on the Australian Electoral Commission website.

IAG representatives participate in forums, working parties and committees of domestic and overseas insurance industry associations, as well as accounting, actuarial and legal professional bodies, to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices relevant to the general insurance industry. Consistent with this and our purpose, IAG is a member of the UNEP Finance Initiative and became a founding signatory to the United Nations Principles for Sustainable Insurance (UN PSI) in June 2012. IAG’s Group Executive for People, Performance and Reputation, Jacki Johnson is a member of the UNEP FI Global Steering Committee and IAG’s Chief Customer Officer, Julie Batch is a member of the UNEP Board.

IAG’s corporate governance policies are on IAG’s website (www.iag.com.au select About us). They are not an exhaustive list of all corporate governance practices in place at IAG. Copies of IAG’s Board and Board Committee charters are also available in the same area of the website. For the financial year ended 30 June 2016, IAG has complied with the Australian Securities Exchange Corporate Governance Council (ASXCGC) Principles and Recommendations (3rd edition).

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 THE BOARD

The Board is responsible for protecting the interests of policyholders and shareholders and for the performance, operation and affairs of IAG. The Board’s principal role is to provide leadership and to govern, rather than manage, IAG. The Board represents and serves the interests of the shareholders, collectively overseeing and appraising strategies, policies and the performance of IAG.

The Board is responsible for oversight of IAG, including:
- driving and monitoring the strategic direction of IAG and approving Group strategies;
- approving significant corporate initiatives including major acquisitions, divestments and capital management transactions;
- setting IAG’s risk appetite;
- selecting appropriate candidates and recommending to IAG shareholders the election, re-election or removal of Non-Executive Directors;
- appointing the Chairman, evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Non-Executive Directors;
- overseeing the integrity of IAG’s accounting and reporting systems, including the external audit process;
- review and approval of IAG’s remuneration policies and framework;
- 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, workplace health & safety, social and environmental responsibility) are adhered to at all times.


THE CEO

The Board has delegated responsibility for the overall management and profit performance of IAG, including all day-to-day operations and administration, to the CEO, who is responsible for:
- the efficient and effective operation of IAG;
diversity. IAG’s diversity ambition is to respect and value the different experiences of people as well as harness the opportunity and business benefits that diverse ideas and perspectives bring to our organisation stakeholders and customers. IAG’s diversity policy statement can be found on IAG’s website at www.iag.com.au/about-us/corporate-governance/codes-and-policies.

Diversity activity

IAG’s diversity and inclusion strategy and program of work aims to challenge bias, particularly in the areas of gender, age and cultural diversity. Whilst continuing our previous work and ongoing initiatives, IAG undertook a number of initiatives, including:

- Continued to advance toward gender parity within an IAG Group target of 38% women in senior management roles by 2020.
target was composed of regional sub targets of 40% for IAG Australia and New Zealand, and 30% for Asia. As at 10th June 2016, women filled 32.5% IAG’s senior management roles across the Group. This is further broken down to represent 32.8% in our Australian businesses, 36.6% in New Zealand and 27.3% in Asia.

- Rolled out Inclusive Leadership training, accrediting more than 100 business facilitators and running sessions across Australia and NZ to enable leaders at all levels to address unconscious bias and be more inclusive leaders.
- Introduced new initiatives to address broader diversity & inclusion segments, including CareerSeekers internships for students and mid career-professionals on refugee and asylum seeker visas, partnering with Australian Network on Disability on High Growth Jobs, Talented Candidates, becoming a major partner of Out for Australia.
- Piloted Workflex, a suite of work practices aimed at providing more effective flexibility principles for our people.
- Continued our commitment to support Indigenous communities through the launch of IAG’s second Reconciliation Action Plan (RAP), an Elevate RAP. We will continue to partner with our four primary RAP partners: CareerTrackers, Jawun, NPY Women’s Council and the Australian Indigenous Mentoring Experience to work toward our RAP vision to the empowerment of Aboriginal and Torres Strait Islander peoples, businesses and communities.

The IAG Diversity and Inclusion Action Group includes senior representatives from each of the key businesses and its progress is monitored by the IAG Board People and Remuneration Committee (PARC).

Diversity targets
IAG continues to be committed to increasing the representation of women in senior management positions. IAG measures this by tracking the gender of management staff, with the goal that 33% of senior management roles should be filled by females.

This year, we reported that women filled 31.5% of our senior management roles, across the Group and 33.3% in our businesses in Australia and New Zealand. While our Group result is not quite at the goal we set in 2010 to have 33% of senior management roles filled by women this year, we have improved significantly from the 27% we reported in 2010. We remain committed to increasing the representation of females in senior management positions and are developing a range of initiatives to take us forward. A summary of the percentage of women in IAG’s workforce is provided below:

<table>
<thead>
<tr>
<th>DIVERSITY OBJECTIVES</th>
<th>ACTUAL 2016*</th>
<th>ACTUAL 2015*</th>
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<tbody>
<tr>
<td>Women in workforce</td>
<td>59%</td>
<td>59%</td>
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<tr>
<td>Board positions</td>
<td>25%</td>
<td>33%</td>
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<tr>
<td>Executive positions</td>
<td>21%</td>
<td>13%</td>
</tr>
<tr>
<td>Senior management positions</td>
<td>32%</td>
<td>31%</td>
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*These figures cover the workforce in Australia, New Zealand and Asia.

The role of senior management positions at IAG is generally identified as the internal HR position code CEO-3 and above, however there are exceptions to this rule.
1.6 MEASURING THE PERFORMANCE OF NON-EXECUTIVE DIRECTORS
The Board conducts a review of its performance, composition, size and succession planning at least every three years with assistance from external experts (Formal Review). A Formal Review of the Board and each Non-Executive Director (including the Chairman), with assistance and input from an independent board performance expert, was conducted in 2016. The Formal Review process involves the completion of questionnaires by Non-Executive Directors and Group Executives; interviews with the independent expert; the collation of results; and discussion with individual Non-Executive Directors and the Board as a whole led by the Chairman.

In between Formal Reviews, the Board annually conducts an internal review of its performance and that of the Board Committees. In addition, each Non-Executive Director's performance is annually evaluated by the Chairman and then discussed between the Chairman and the Director.

Measures of a Non-Executive 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, fulfillment of the additional role as Chairman.

Individual Non-Executive Directors also evaluate the Chairman's performance annually. The Boards and Committees of key operating subsidiaries also regularly review their own performance.

1.7 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES
Financial and non-financial goals are set through the completion of an individual balanced scorecard 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. Achievement against these goals is the basis for assessing an individual Group Executive’s performance. The methods of assessment have been selected so that performance 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 against the balanced scorecard goals set at the commencement of the year and for allocating long term incentives to Group Executives. The Group Executive assessments are reviewed by the PARC and approved by the Board. These assessments are the basis for determining any short term incentive payments.

Financial and non-financial goals and the performance of the CEO are determined and assessed by the Board using the same approach. Further detail on the CEO’s and Group Executives’ short and long term incentives is set out in the Remuneration Report.

PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE

2.1 NOMINATION COMMITTEE
The Nomination Committee currently comprises all the Non-Executive Directors as well as the Managing Director and CEO, Peter Harmer.

The role of the NC is to support the Board in fulfilling its statutory and fiduciary responsibilities by ensuring that there are appropriate processes for: Board renewal and succession; assessment of Board and Director performance; and Director induction and continuing education programs. All members of the Nomination Committee have the skills and experience necessary to fulfill their role on the Committee. Director’s qualifications and experience are shown in their biographies in the Directors’ report.

The Nomination Committee assesses director candidates and makes recommendations to the Board for appointment, either when a vacancy arises or if Nomination Committee considers that the Board would benefit from the services of a new Director. The Board has adopted a framework for effective Director selection and Board succession to help ensure that the Board’s skills, competencies and knowledge match IAG’s strategic objectives. 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 who think differently to each other and have diverse backgrounds; and
- the adoption of a formal approach to Director selection and a systematic and strategic approach for Board succession.

The Nomination Committee also reviews all Directors submitting themselves for election and re-election at an AGM, prior to consideration by the Board.

The Nomination Committee met twice during the reporting period. Member attendance at each meeting is shown in the Directors’ Report.

The Nomination Committee Charter, which provides details of the NC’s responsibilities, is available on IAG’s website at www.iag.com.au.

2.2 BOARD SKILLS
The Board currently comprises seven independent Non-Executive Directors, and an Executive Director, Mr Peter Harmer, IAG’s Managing Director and CEO.

The Board’s policy is to help ensure that the Board comprises Directors who collectively have the relevant experience, knowledge, diversity and skills required for IAG. This takes into account IAG’s current size, market position, complexity and strategic focus. In reviewing its composition, skills and requirements for Director succession, the Board is also mindful of the corporate governance practices and requirements for Directors.

The skills, competencies and composition of the Board are regularly reviewed to ensure that the Board continues to have an appropriate
mix of skills, knowledge, diversity and experience and to identify any gaps or opportunities to enhance Board skills. A comprehensive review of Board skills was undertaken in July 2016. The review focused on differentiating the key skills collectively required by the Board and ensuring those skills align to IAG’s current strategic direction and its operational and risk environments. This resulted in the addition of leadership skills as a core competency of the Board. The core competencies and experience required, and collectively possessed, by the Board are in the areas of:

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<th>Risk &amp; Finance</th>
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<td>Insurance</td>
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<td>Marketing &amp; customer</td>
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<td>Asian/emerging markets</td>
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<td>General Management</td>
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<tr>
<td>Strategic HR</td>
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<td>Leadership skills</td>
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<tr>
<td>Number of Directors with requisite skills</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
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Additional competencies and experience identified for, and collectively possessed by, the Board are in the areas of:

| Experienced CEO (listed entity) |  |  |  |  |  |  |  |
| Experienced Board/Committee chairperson (listed entity) |  |  |  |  |  |  |  |
| Government Relations |  |  |  |  |  |  |  |
| Asset & Investment Management |  |  |  |  |  |  |  |
| Strategic IT |  |  |  |  |  |  |  |
| Legal |  |  |  |  |  |  |  |
| Number of Directors with requisite skills | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |

In addition to the competencies detailed above, the Board seeks to ensure that it has a broad and diverse membership which brings different perspectives and experiences to Board deliberations.

2.3 BOARD OF DIRECTORS

Directors are expected to continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of IAG’s shareholders.

The Board has a tenure policy for Non-Executive Directors to help 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 Non-Executive Directors to stand for an additional term which may take their total tenure beyond 10 years. Details of the current Non-Executive Directors’ tenure are shown below:

<table>
<thead>
<tr>
<th>INDEPENDENT NON-EXECUTIVE DIRECTORS</th>
<th>TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT)</th>
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<tr>
<td>Elizabeth Bryan (Chairman)</td>
<td>1 year and 7 months</td>
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<tr>
<td>Hugh Fletcher</td>
<td>8 years and 10 months</td>
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<tr>
<td>Philip Twyman</td>
<td>8 years</td>
</tr>
<tr>
<td>Alison Deans</td>
<td>3 years and 5 months</td>
</tr>
<tr>
<td>Raymond Lim</td>
<td>3 years and 5 months</td>
</tr>
<tr>
<td>Thomas Pockett</td>
<td>1 year and 6 months</td>
</tr>
<tr>
<td>Jonathan Nicholson</td>
<td>10 months</td>
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</table>
The names of Directors in office at the date of this report, their year of appointment, experience, expertise and biographical details are set out in the Directors' Report.

Potential conflicts of interests
Directors are required to disclose all their interests on an ongoing basis and, in particular, are required to disclose interests that could conflict with IAG’s interests. 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 his or her interest and abstain from voting, unless the Board determines otherwise. That Director will also be excluded from receiving any papers with regard to the conflicted transaction or arrangement. Directors with potential conflicts do not serve on any Board Committees that are appointed to oversee the implementation of transactions or arrangements with which the Directors' interests may conflict.

2.4 DIRECTOR INDEPENDENCE
The Board has determined that it must comprise 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 determines whether each Non-Executive Director is independent using the principles outlined in its Charter.

2.5 THE CHAIRMAN
The Chairman is an independent Non-Executive Director and is responsible for ensuring the Board fulfils its responsibilities to IAG and stakeholders. The Chairman provides leadership to the Board and promotes constructive and respectful relations between Directors and between the Board and management. The Chairman presides at Board and general meetings of IAG.

2.6 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. Directors participate in ongoing education activities, including with local and overseas experts in particular fields, which are relevant to IAG’s operations. A letter of appointment notes the right of Non-Executive Directors to obtain independent professional financial and legal advice, at the Company’s expense, to assist with the efficient discharging of their duties.

New Non-Executive Directors have access to an induction program to introduce the Group Executives 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 further Non-Executive Directors’ education on topics which include reinsurance, capital, risk management and investment management. Directors have unfettered access to Group Executives and the external auditor and are encouraged to meet with these Group 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 help ensure they can continue to effectively and competently perform their roles as Executive Directors.

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 the Group’s ethical principles as set out in IAG’s Code of Ethics (the Code) and the IAG policies and standards that relate directly to their duties.

The Code 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 outlines the principles to guide the behaviours of every officer, employee and contractor in IAG. This means that when IAG’s stakeholders interact with IAG, they should feel assured that IAG will act in a responsible, ethical, transparent and honest way, wherever IAG operates.

The Code applies to all Non-Executive Directors, Group officers, employees and contractors for all entities where IAG has majority ownership or which are otherwise to be considered IAG subsidiaries.

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

IAG is acutely aware of the important role culture plays in how a business operates, and performs. IAG believes that it has a very effective and caring culture and has taken steps this year to ensure that its assessment is correct. Mindful of wider community discussions about corporate culture, IAG has appointed renowned ethicist Dr Simon Longstaff (Executive Director, Ethics Centre) to lead IAG’s Ethics Committee to gain an external perspective.


PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 AUDIT COMMITTEE
The Audit Committee comprises five Non-Executive Directors: Thomas Pockett (Chairman), Philip Twyman, Hugh Fletcher and Jonathan Nicholson. All members of the AC have financial management experience as shown in their biographies in the Directors’ Report.

The main role of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities by monitoring:

- 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;
- the provision of high quality financial and non-financial information to Directors and management that reflects a true and fair view...
of the Company performance and can be relied on by them to make informed judgements;
- tax and financial risks; and
- that the independence of the Auditor, Group General Manager Internal Audit, Group Actuary and the Global External Peer Review Actuary is safeguarded.

The Audit Committee will provide prior endorsement to the Board on the appointment, reappointment and rotation of the audit engagement partner, removal and remuneration of the Auditor and will assess total fees paid for all non-auditor services provided by the Auditor.

The Audit Committee is also empowered as the Audit Committee of IAG’s insurance subsidiaries, except for Insurance Manufacturers of Australia Pty Limited and those entities which have established their own Audit Committees. In addition, the Audit Committee acts as the Audit Committee for IAG Finance (New Zealand) Limited, a company with securities listed on the ASX.

The Audit Committee met four times during the reporting period and member attendance at each meeting is shown in the Directors’ Report.

The Audit Committee Charter, which provides details of the committee’s responsibilities, is available on IAG’s website at www.iag.com.au.

4.2 ASSURANCES
The Board has received assurance from the CEO and CFO that the annual 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.

4.3 EXTERNAL AUDITOR
The external Auditor attends the AGM 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.

Annually IAG also engages an external auditor to provide independent assurance over IAG’s non-financial reporting. The Independent Assurance Statement can be found here http://www.iag.com.au/shared-value/our-performance.

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.


IAG is committed to timely, factual and balanced disclosure to help ensure investors are informed of material developments for the Group. Care is taken to help 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 sign-off process 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 are available online at www.iag.com.au/news-events/announcements.

Policies have been designed and established to ensure compliance with the ASX Listing Rules’ disclosure requirements and to help 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;
- webcasts of CEO and CFO presentations at half year and full year results announcements;
- notices of general meetings and explanatory material;
- 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.

PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 INFORMATION AND GOVERNANCE
IAG maintains a comprehensive website at www.iag.com.au to provide shareholders with information about IAG, including links to the Corporate Governance policies adopted by the Group. The website also provides detailed biographies of the Board members and the Group Executives, as well as news releases and interim and full year financial results and reports.

IAG’s website has a separate Shareholder Centre to provide shareholders with share price history, dividend payments made on IAG ordinary and preference shares by year and links to IAG public offers and proposals. Shareholders are also able to access details of their holdings of IAG securities.

These website is actively promoted to all shareholders on dividend payment statements and in AGM materials.
6.2 INVESTOR RELATIONS PROGRAM
Shareholders and investors can raise any issues or concerns at any time by contacting the Company by email at 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.

Shareholders are provided with a Question Form with their AGM documentation. Shareholders who are unable to attend the AGM are encouraged to ask questions as they submit their voting intentions either online or when mailing back the voting form. Questions received from shareholders are collated and, during the course of the AGM, the Chairman or CEO responds to the most frequently asked questions in their presentations to the meeting.

6.3 PARTICIPATION AT GENERAL MEETINGS
Shareholders are encouraged to attend AGMs and ask questions of the Chairman and the Board. IAG adopts best practice in the drafting of notices for general meetings and other communications to help ensure that they are honest, accurate, informative and not misleading. All AGM material can be found in the Shareholder Centre of IAG’s website at www.iag.com.au.

IAG shareholders and authorised intermediaries such as custodians are offered online proxy and direct voting to facilitate lodgement of their votes on resolutions put to general meetings. The AGM is also webcast live for viewing by shareholders and other interested parties, and an archived file of the meeting is made available in the Shareholder Centre of IAG’s website at www.iag.com.au.

6.4 ELECTRONIC COMMUNICATIONS
IAG actively promotes to shareholders the benefits of using electronic communications. As at 31 July 2016, 29.10% of shareholders had registered their email address. Shareholders who use this service are advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available on the website.

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

PRINCIPLE 7. RECOGNISE AND MANAGE RISK
Managing risk is central to the sustainability of IAG’s business, its purpose and the delivery of shareholder value. IAG does not seek to avoid all risks but does aim to optimally manage risks. Management of risk is an integral part of delivering IAG’s strategy, decision making and long-term sustainability. IAG’s Risk Management Framework (RMF) uses an enterprise approach to risk and is a core part of its governance structure. The RMF includes internal policies, key management processes and culture.

The Group Chief Risk Officer (CRO) reports to the CEO. The CRO oversees risk activities across IAG and is supported by a risk function. IAG’s CRO and risk function provide regular reporting to the Risk Committee on risk matters and key risks. Further details on risk management at IAG are included in the notes to the Financial Statements.

7.1 RISK COMMITTEE
The Risk Committee comprises five Non-Executive Directors: Philip Twyman (Chairman), Elizabeth Bryan, Hugh Fletcher, Thomas Pockett and Jonathan Nicholson. All members of the RC have relevant experience as shown in their biographies in the Directors’ Report.

The Risk Committee assists the Board and its subsidiaries and related entities in fulfilling their risk management and compliance responsibilities and is supported in its oversight of risk by a series of Executive and Regional risk and governance forums.

The Risk Committee’s RC’s purpose is to:
- provide oversight of material risks to which IAG is exposed and oversight of risk management and control systems for adequacy and effectiveness;
- monitor the Group’s compliance with the Group Risk Management Strategy (Group RMS), Group Reinsurance Risk Management Strategy (Group REMS) and other governance and risk related Group Policies identified in the Group RMS;
- ensure effective operation of compliance systems, having regard to the requirements of applicable laws, regulations, industry codes, listing authorities’ rules and organisational policies and frameworks;
- oversee the Group’s risk management and governance frameworks; and
- safeguard the independence of the Group CRO, Chief Actuary and the risk and compliance functions.

The Risk Committee met four times during the reporting period and member attendance at each meeting can be found in the Directors’ Report. The Risk Committee Charter, which provides details of the Risk Committee’s responsibilities, and operation, is available at www.iag.com.au/about-us/corporate-governance.

7.2 REVIEW RISK MANAGEMENT FRAMEWORK
The Board has responsibility for setting risk strategy. The Risk Committee assists the Board in fulfilling its risk management responsibilities and has oversight of the Group’s risk management and governance frameworks and material risks to which the Group is exposed. The Risk Committee monitors the effectiveness of the risk management function, reviews and recommends IAG’s Risk Management Strategy and other key risk documents (e.g. the Reinsurance Management Strategy and the Risk Appetite Statement, and selected Group Policies) to the Board for approval and satisfies itself as to the contents of the annual APRA Risk declaration. The Board receives information on risk matters of particular significance and regular updates from the Chairman of the Risk Committee.

The CRO team provides regular reports to the Risk Committee on the operation of IAG’s risk management framework, the status of key risks, risk and compliance incidents and risk framework changes. Divisional risk and compliance functions also report regularly to
either the Group CRO or divisional risk committees.

The Risk Committee considers IAG’s enterprise risk profile, risk appetite and core risk documents on an annual basis. In addition, business Executives are required to attend and report to the Risk Committee on the effectiveness of the risk management frameworks embedded in their respective business divisions.

At an Executive level, risk management is delegated to the Group CEO who is assisted in discharging risk management responsibilities by the IAG Group Leadership Team Risk Committee (GLT Risk) and the Asset and Liability Committee (ALCO). GLT Risk operates in accordance with its Charter and with delegations from the Group CEO, who is also GLT Risk’s Chairman. GLT Risk oversees the development and implementation of IAG’s risk management framework and governance arrangements. GLT Risk comprises all GLT members and the Group General Manager Risk and Governance. ALCO focuses on financial risks (such as reinsurance and capital) and provides advice to the CFO. ALCO operates in accordance with its charter and is Chaired by the Group CFO.

IAG operates a “Three Lines of Defence” approach to risk management. The First line is operational management (risk owners), who own their risks and the management of those risks. The Second line (risk advisers) is typically the risk management and compliance functions, and the Third line is the independent audit functions.

Executive Management (all members of the GLT) is responsible for the management of risks faced by their Division. This includes full responsibility for the embedding of the risk management processes and culture, through:

- providing the mandate and commitment to risk management (i.e. set the tone at the top with regards to risk management);
- ensuring their Division complies with the RMS requirements, Board approved policies and all applicable regulatory / legal requirements;
- embedding Divisional Risk Owner responsibilities;
- ensuring there are Divisional / Regional Risk teams that are sufficiently resourced as appropriate to the nature, scale and diversity of the Division and have the necessary standing and support;
- using risk management processes as part of key decision making;
- ensuring the business operates within the Group / Divisional Risk Appetite;
- regularly receiving and considering risk management reports; and
- promoting and reinforcing the Group’s proactive risk management culture.

Risk culture and behaviours are the foundation for appropriate risk management, governance and business sustainability. Conducting business in a manager aligned with IAG’s Purpose is a core goal. Conduct related matters and risks and managed via IAG’s enterprise approach to risk and associated practices.

7.3 INTERNAL AUDIT FUNCTION

The Board has established the Group Internal Audit function as a key component of IAG’s governance framework. The Group Internal Audit function’s objective is to evaluate the effectiveness of internal controls, governance processes and overall risk management, via its independent and objective review program and to:

- provide assurance to the Board that IAG’s financial and operational controls designed to manage the Group’s risks and regulatory obligations, and achieve its objectives, are operating in an efficient, effective and ethical manner; and
- assist management in improving IAG’s business performance.

The Group General Manager, Internal Audit, reports functionally to the Audit Committee and administratively to the Group CRO, and has direct access to the CEO and the Audit Committee.

7.4 ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK

IAG is a founding member of the United Nations Environment Program Finance Initiative, Principles for Sustainable Insurance (PSI) and is one of the only two Australian insurers among 43 signatories. Launched in June 2012 as part of the United Nations Environment Program Finance Initiative (UNEPFI), the PSI is a set of voluntary global principles to guide insurers to:

- embed in their decision-making relevant environmental, social and governance issues;
- work together with clients and business partners to raise awareness of these issues, manage risk and develop solutions;
- work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social, and governance issues; and
- demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

IAG is an active member of the UNEPFI PSI and has taken a lead position on PSI activities, including through its sponsorship of the three-phase Global Resilience Project, which aims to deepen the understanding of disaster risk reduction activities and investments globally, identify the human and economic cost of disasters, and help governments, businesses and NGOs focus more closely on necessary disaster risk reduction activities in the world’s most vulnerable countries. Phase I and II of the Global Resilience Project are detailed below:

- Phase I — the “Building disaster-resilient communities and economies” report — was launched at a major PSI event in London in June 2014. The report identified and assessed the effectiveness of a range of disaster risk reduction measures for cyclones, floods and earthquakes. The research focused on net economic and social benefits, and the cost to implement a particular disaster risk reduction measure relative to other options; and
- Phase II — the Global Risk Map — was introduced at a major PSI event in Switzerland in May 2015, and formally launched at the International Insurance Society’s (IIS) Global Insurance Forum in New York in June 2015. The Global Risk Map covers major natural disasters over the past 115 years. The map highlights the social and economic devastation caused by cyclones, floods, earthquakes and related perils, as well as areas/countries of high vulnerability to these natural hazards.

Part of IAG’s commitment to implementing the PSI principles is ensuring that IAG has governance systems — structures, values, principles, frameworks and policies — to define its decision-making context and the boundaries for managing operations sustainably.
Responsibility for adhering to these systems sits at every level of the organisation. IAG’s Board takes overarching responsibility for monitoring the development, implementation and reporting of IAG’s approach to the proactive management of risk that drives sustainable outcomes and how effectively IAG responds to stakeholders.

As well as actively managing sustainability risks internally, IAG believes it also has a responsibility to share its knowledge about risk to make communities safer, stronger and more confident. It does this by promoting better understanding and reduction of risks, at home, at work, on the road and in the natural environment.

An example of this is the IAG-led Australian Business Roundtable for Disaster Resilience & Safer Communities. The Roundtable was formed in December 2012 by the Chief Executive Officers of the Australian Red Cross, IAG, Investa Property Group, Munich Re, Optus and Westpac Group. The CEOs created the Roundtable as all believe building resilient communities that can adapt to extreme weather events is of national importance. The Roundtable has released two significant evidence-based papers to Government, both of which have contributed to the findings of the Productivity Commission’s Inquiry into Natural Disaster Funding Arrangements. The Commission’s Final Report was released by Government on 1 May 2015. In recognition of this work the Roundtable was awarded the Certificate of Distinction at the 2015 United Nations Sasakawa Awards for Disaster Risk Reduction, the first private sector organisation to do so in the 30 year history of the awards.

More information about how IAG shares its risk expertise and details of other shared value and sustainability activities, including how IAG defines and addresses the issues it faces, can be found in the 2016 Annual Review.

**PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY**

**8.1 PEOPLE AND REMUNERATION COMMITTEE**

The three members of the People and Remuneration Committee (PARC) are Elizabeth Bryan (Chairman), Alison Deans, and Raymond Lim. Yasmin Allen was a member until September 2015 and Brian Schwartz was member until March 2016.

The PARC assists the Board in fulfilling its statutory and fiduciary responsibilities by:

- monitoring the development and implementation of Group’s people and culture strategies;
- monitoring the development and implementation of IAG’s workplace, health and safety framework and strategies;
- reviewing succession plans for Executives;
- providing assurance to the Board relating to the effectiveness, integrity and compliance with IAG’s remuneration policies and practices;
- assessing 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;
- monitoring the appropriateness and relevance of the Group Reward Strategy and its approach to deliver the strategic goals of IAG; and
- overseeing Board composition of designated IAG subsidiary and associated companies.

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. The PARC met four times during the reporting period and member attendance at each meeting is shown in the Directors’ Report.


**8.2 GROUP REMUNERATION POLICY**

Details of IAG’s remuneration policies for its Non-Executive Directors and senior Executives are disclosed in the Remuneration Report. The Remuneration Report describes how the pay for Non-Executive Directors and Executives is structured, and includes: details of the actual remuneration paid; the relationship to IAG’s performance; and the process allowing the Board to adjust variable pay downward. The Remuneration Report also outlines IAG’s minimum shareholding requirements for Executives and Non-Executive Directors.

**8.3 EQUITY BASED REMUNERATION**

IAG’s remuneration policy prohibits Non-Executive Directors and Executives from entering into, varying or terminating transactions or arrangements which operate to limit the economic risk of their:

- unvested entitlements to IAG securities (such as Executive Performance Rights and Deferred Award Rights); and
- vested IAG securities which form part of their mandatory holding of IAG ordinary shares.

Details of IAG’s equity based remuneration policy for the CEO and Group Executives are shown in the Remuneration Report.