

## REMUNERATION REPORT

### LETTER FROM THE NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE CHAIR

IAG is pleased to present its remuneration report for the financial year ended 30 June 2011.

With recent developments in corporate governance and based on shareholder feedback on the 2010 remuneration report, this report has been further simplified from last year to clearly communicate the remuneration approach adopted by IAG. The remuneration structure for IAG's executive team is summarised below.

REMUNERATION COMPONENT*		STRATEGIC PURPOSE	
FIXED REMUNERATION	Cash	<ul style="list-style-type: none"> <li>Base salary and superannuation</li> </ul>	<ul style="list-style-type: none"> <li>Attract and retain high quality people</li> </ul>
AT RISK REMUNERATION	Cash Short term incentive (STI)	<ul style="list-style-type: none"> <li>2/3 of STI outcome paid as cash in September</li> </ul>	<ul style="list-style-type: none"> <li>Align reward to shareholder interest</li> </ul>
	Deferred Short term incentive (STI)	<ul style="list-style-type: none"> <li>1/3 of STI outcome is deferred over a period of two years, subject to ongoing employment conditions</li> <li>Provided as grant of rights in the form of deferred award rights (DAR)</li> <li>The actual value of shares will depend on the future share price</li> <li>IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure that an inappropriate reward outcome does not occur</li> </ul>	<ul style="list-style-type: none"> <li>Strike a balance between short and long term results and reward for exceptional performance</li> <li>Retain high quality people</li> </ul>
	Long term incentive (LTI)	<ul style="list-style-type: none"> <li>Provided as grant of rights in the form of executive performance rights (EPR)</li> <li>3-5 year period</li> <li>Subject to performance hurdles, relative total shareholder return (TSR) and return on equity (ROE), being achieved</li> <li>IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure that an inappropriate reward outcome does not occur</li> </ul>	<ul style="list-style-type: none"> <li>Align reward to shareholder interest</li> <li>Align remuneration with longer term financial performance</li> <li>Retain high quality people</li> </ul>

\* A detailed glossary of terms is provided at the end of the remuneration report.

The IAG 2011 remuneration report is designed to provide a comprehensive and clear disclosure of Group remuneration structures. In addition to the disclosure required under the Corporations Act 2001, the Group has voluntarily provided additional information relating to the actual remuneration received by the Chief Executive Officer and the executive team for the year ended 30 June 2011. Actual remuneration provides the remuneration that an executive has actually received in hand during the year. This will help avoid confusion and clarify the link between at risk remuneration (i.e. short term and long term incentives) and the financial performance of the Group.

In the past year, the Nomination, Remuneration & Sustainability Committee (NRSC), a standing committee of the IAG Board, initiated a market competitive and governance review of the Group's executive remuneration strategy using an external consultant PricewaterhouseCoopers (PwC). This review was completed in May 2011.

The IAG Board is confident that IAG's remuneration policies are in line with governance requirements and continue to support the Group's financial and strategic goals, which ultimately benefit shareholders, customers, employees and the community. On behalf of the IAG Board, I invite you to read the full report and thank you for your interest.



**Yasmin Allen**

Nomination, Remuneration & Sustainability Committee Chair

This remuneration report is structured into the categories explained below:

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## A. 2011 SNAPSHOT

### I. Actual remuneration earned by the executive team

The actual remuneration presented below provides the remuneration that an executive has received in hand during the year. This demonstrates alignment between at risk remuneration (i.e. STI and LTI) and the financial performance of the Group. This voluntary disclosure includes fixed remuneration, cash STI paid as well as any deferred STI or LTI that have vested in the year ended 30 June 2011. Remuneration details provided in accordance with accounting standards is included in Category C.

NAME	POSITION	TOTAL FIXED REMUNERATION	TERMINATION PAYMENT	CASH STI	DEFERRED STI		TOTAL ACTUAL REMUNERATION RECEIVED IN
					VESTED IN 2011	LTI VESTED IN 2011	
Table note		A	B	C	D	E	F
		\$000	\$000	\$000	\$000	\$000	\$000
<b>EXECUTIVES</b>							
MJ Wilkins	Managing Director and Chief Executive Officer	2,034	-	1,104	327	295	3,760
JP Breheny	Chief Executive Officer, Asia	863	-	429	174	116	1,582
A Cornish	Chief Executive Officer, Australia Direct	978	-	610	132	-	1,720
IR Foy	Chief Executive Officer, UK	1,241 <sup>(a)</sup>	-	292	63	14	1,610
P Harmer	Chief Executive Officer, CGU	614	-	275	-	-	889
NB Hawkins	Chief Financial Officer	962	-	460	151	113	1,686
JS Johnson	Chief Executive Officer, New Zealand	831 <sup>(b)</sup>	-	337	180	117	1,465
LC Murphy	Chief Strategy Officer	837	-	404	110	41	1,392
<b>EXECUTIVES WHO LEFT DURING THE FINANCIAL YEAR</b>							
K Armstrong	Former acting Chief Executive Officer, New Zealand	85	-	15	-	-	100
N Utley	Former Chief Executive Officer, UK	288	942	-	242	169	1,641
DG West	Former Chief Executive Officer, CGU	548	-	-	140	118	806

#### a. FOOTNOTES

- (a) Total fixed remuneration received by IR Foy included an amount of \$575,000 relocation and accommodation allowances for his new role in a different country. This balance included the loss on sale of the NZ residence, plus the associated transaction costs, of \$291,000 (NZ\$380,000) of Mr Foy's NZ residence.
- (b) Total fixed remuneration received by JS Johnson included an amount of \$55,000 relocation and accommodation allowances for her new role in a different country.

#### b. TABLE NOTE

- \* Detailed definitions of the terminologies used in this remuneration report are provided in Category F – Glossary of terms.

- A Total fixed remuneration includes the following components as disclosed in the remuneration table prepared in accordance with accounting standards requirements in Category C:
- base salary in column (1);
  - other short term employment benefits (including relocation and accommodation allowances) in column (3);
  - superannuation in column (4); and
  - long service leave accruals in column (5).
- B This is the termination payment for N Utley. The amount is calculated and paid based on the terms of Mr Utley's service agreement, ie the 12 months base salary, plus payment for the value of benefits (excluding STI) that would have accrued for 12 months had termination not occurred. This is the same as the termination payment column in the remuneration report in Category C.
- C This represents the 2/3 portion of STI for the period from 1 July 2010 to 30 June 2011. It is the same as the cash STI in column (2) in the remuneration table in Category C.
- D This represents the value of deferred STI that vested in 2011 and details are provided in the table on page 24 in Category B. The weighted average share price used to value the deferred STI at vesting date is \$3.40. Column (6) in the remuneration table in Category C represents the accounting value for all grants.
- E This represents the value of the LTI that vested in 2011 and details are provided in the table of LTI on page 27 in Category B. The weighted average share price at vesting date is \$3.68. Column (7) in the remuneration table in Category C represents the accounting value for all grants.
- F The total actual remuneration is the total value of column A to E.

The table below is illustrative of the potential fixed and at risk remuneration that the Group CEO and executives (on average) can earn under the current remuneration framework compared to what they have actually received during the year. This demonstrates alignment between at risk remuneration and the financial performance of the Group. The Group CEO and executives will only receive high reward outcomes if performance hurdles are met. Calculations are based on current executives at 30 June 2011 who have been employed for the full financial year. Actual at risk remuneration is calculated according to the actual remuneration table above and expressed as a percentage of the total potential remuneration.

Remuneration component	What it contains	GROUP CEO		EXECUTIVES	
		Potential remuneration <sup>(a)</sup>	Actual remuneration	Potential remuneration <sup>(a)</sup>	Actual remuneration <sup>(b)</sup>
Fixed remuneration <sup>(c)</sup>	Base salary and superannuation	25.0 %	25.0 %	29.0 %	29.0 %
At risk	Short term incentive - cash	25.0 %	14.3 %	23.2 %	14.4 %
	Short term incentive - deferred	12.5 %	4.2 %	11.6 %	4.6 %
	Long term incentive	37.5 %	3.8 %	36.2 %	2.3 %
<b>Total</b>		<b>100.0 %</b>	<b>47.3 %</b>	<b>100.0 %</b>	<b>50.3 %</b>

(a) Potential fixed and at risk remuneration is based on current remuneration at 30 June 2011.

(b) Executive data excludes P Harmer who only commenced on 8 November 2010.

(c) Fixed remuneration includes base salary and superannuation. It excludes other values such as long service leave accruals and relocation and accommodation allowances.

## B. EXECUTIVE REMUNERATION AT IAG - AUDITED

This report provides the disclosures which meet the remuneration reporting requirements of the Corporations Act 2001 and AASB 124. The term remuneration used in this report has the same meaning as compensation as prescribed in AASB 124.

### I. Governance

The responsibility of the IAG Board is to ensure that the remuneration frameworks are aligned to the short and long term interests of IAG and its shareholders. The NRSC makes recommendations to the IAG Board regarding group remuneration policy including executive remuneration. The IAG Board independently considers these recommendations prior to making the decisions that affect the remuneration of the executives.

#### a. ROLE OF NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE

The NRSC is the IAG Board committee which oversees IAG's remuneration practices. This committee actively engages in decisions relating to executive remuneration.

The NRSC endeavours to ensure that the remuneration policies balance IAG's performance objectives and remain in step with community and shareholder expectations. While stability in the remuneration structure is important, where modifications can be made to better align stakeholder interests and drive performance, the NRSC actively considers these and makes recommendations to the IAG Board.

The Group CEO, corporate office executives, business CEOs and human resources executives regularly attend NRSC meetings and assist the committee in its deliberations. However, none are present when their own remuneration is discussed. The business CEOs and respective heads of human resources regularly present to the NRSC to update them on the human resources strategy and people initiatives within their divisions. This provides an open channel of communication between the operating divisions and the NRSC.

The chair of the NRSC and the IAG Board meet regularly to provide updates on remuneration related issues and to gain IAG Board sign off on recommendations.

A copy of the NRSC's charter is available at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

#### b. INVOLVEMENT OF REMUNERATION CONSULTANTS

The NRSC directly engages and considers advice from leading remuneration consultants including PwC and Ernst & Young (E&Y) where appropriate to ensure market competitiveness and appropriate governance. The advice from the various remuneration consultants is used as a guide and all remuneration decisions for the Group CEO and executive team are made by the IAG Board.

#### II. Executive remuneration

IAG's executive remuneration structure is designed to align total remuneration with company and individual performance. It recognises that executives have a significant influence on achieving and exceeding the Group's financial results and therefore encourages sustained exceptional performance through its remuneration structure.

Total remuneration outcomes for target performance are positioned at the middle of the market. The appropriate market is determined considering size, industry and geographical location. A higher total remuneration outcome is considered by the IAG Board in cases of exceptional or superior performance aligned with long term financial performance.

#### Guiding principles

At IAG, reward is more than pay and includes elements such as career development and a stimulating work environment. The total remuneration practices have been designed to achieve five key objectives, that:

- motivate employees to achieve superior and sustainable performance and discourage under performance;
- align remuneration with the interest of IAG's shareholders by actively focusing on short to long term goals;
- remain market competitive to attract and retain high quality people;
- be clearly communicated and valued; and
- encourage constructive behaviours and prudent risk taking that support long term financial soundness.

#### Key initiatives in executive remuneration

In response to regulatory changes and shareholder feedback, the NRSC undertook the following initiatives during the year ended 30 June 2011:

- actively monitored the compliance against the Australian Prudential Regulation Authority (APRA) standards covering the governance of remuneration to ensure appropriateness of the Group's remuneration policy;
- met with APRA to discuss good governance and IAG's approach to remuneration;
- made recommendations to the IAG Board for the remuneration of the Group CEO and the executive team;
- introduced voluntary disclosure of actual remuneration for the executive team to clarify the linkage between performance and reward in this report;
- updated deferred STI and LTI terms to provide the IAG Board with discretion to adjust rewards downwards to protect the financial soundness of the Group or in circumstances where the IAG Board determines an adjustment is necessary to ensure that an inappropriate reward outcome does not occur; and
- engaged remuneration consultants from PwC to review the executive remuneration strategy in line with market practice and governance requirements.

#### Remuneration components

The remuneration components for the executive team are explained below.

##### a. FIXED REMUNERATION

Fixed remuneration is defined as base salary (including annual leave) plus superannuation. Executives can determine the mix of base salary and superannuation in line with legislative requirements.

Fixed remuneration is set towards the middle of the market of comparable roles in companies of a similar size to IAG, and is reviewed each year based on advice from external consultants. For Australian based executives, market positioning is determined by reference to a number of peer groups, including the largest 50 companies in the S&P/ASX 100 Index and financial services companies that are of similar size to IAG. Relevant local market peer groups are used for executives located overseas.

##### Fixed remuneration for the year ended 30 June 2011

The average performance based fixed remuneration increase for the executive team in respect of the financial year 30 June 2011 was 4.6% (this excludes increases for role changes).

##### b. AT RISK REMUNERATION

Whilst the IAG Board recognises that executive remuneration is guided by regulation, market forces and benchmarks, it strongly believes that the fundamental driver for executive remuneration should be long term financial performance that generates value for its shareholders. This objective is mainly achieved through the at risk remuneration components consisting of STI and LTI, without excessive risk. To ensure that executives remain focused on long term outcomes the following apply:

- no more than 50% of the STI is based on financial outcomes;
- 1/3 of the STI is deferred over a period of two years, with a review point at the end of the first year;
- the vesting of the LTI does not occur before three years; and
- under the Group Remuneration Policy, the IAG Board retains an overriding discretion to adjust any unpaid or unvested performance pay (such as STI and LTI) downwards if the IAG Board decides it is prudent to do so.

This combination, ensures that the at risk components of remuneration are reflective of the overall performance of the Group.

**i. Short term incentive**

STI refers to the at risk component of remuneration that is designed to motivate and reward for performance typically in that financial year. The performance for the achievement of STI is measured using a balanced scorecard based on goals set against financial and non financial measures.

Financial performance accounts for not more than 50% of the STI outcome to ensure compliance with governance standards. The remaining 50% of the incentive is dependent on the achievement of non financial objectives to secure the long term operation of IAG and its divisions.

For the Group CEO and the executive team, 2/3 of STI is paid as cash, and the remaining 1/3 of STI is deferred in the form of DAR over a period of two years.

The amount of STI paid to the executive team is recommended by the NRSC in consultation with the Group CEO based on their balanced scorecard performance and approved by the IAG Board.

The following table details the weighting of different performance measures for the total STI of the Group CEO and the executive team.

ROLE	FINANCIAL MEASURES		NON FINANCIAL MEASURES
	Group financial targets	Division or business financial targets	
Group CEO	50 %	- %	50 %
Business CEO	10 %	40 %	50 %
Corporate office executives	40 %	10 %	50 %

The table below provides some examples of financial and non financial measures used in the balanced scorecards.

MEASURES	EXAMPLES OF TARGETS
<b>FINANCIAL</b>	
Group financial	ROE, secure position
Division or business	Return on risk based capital, gross written premium
<b>NON FINANCIAL</b>	
Group non financial	Efficiency and effectiveness of processes, creation of a high performing organisation, alignment of customer experience with value proposition, effective governance frameworks
Division or business non financial	Efficiency and effectiveness of processes, insurer of choice for customers, attraction and retention of people with the right values and capabilities, effective governance frameworks

**STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2011**

Actual STI payments made to the executive team for the year ended 30 June 2011 reflect the degree of achievement against the balanced scorecard measures. The table below provides the details for the STI for the Group CEO and the executive team.

	MAXIMUM STI OPPORTUNITY (% of fixed pay)	ACTUAL STI OUTCOME		CASH STI OUTCOME	DEFERRED STI OUTCOME
		(% of maximum)	(% of fixed pay)	(TWO THIRDS OF OUTCOME) (% of fixed pay)	(ONE THIRD OF OUTCOME) (% of fixed pay)
MJ Wilkins	150	57.2	85.8	57.2	28.6
JP Breheny	120	63.1	75.7	50.5	25.2
A Cornish	120	80.2	96.2	64.2	32.0
IR Foy	120	51.5	61.8	41.2	20.6
P Harmer	120	59.4	71.3	47.5	23.8
NB Hawkins	120	61.2	73.4	49.0	24.4
JS Johnson	120	51.5	61.8	41.2	20.6
LC Murphy	120	61.2	73.4	49.0	24.4

### CASH PORTION OF STI OUTCOME FOR THE YEAR ENDED 30 JUNE 2011

2/3 of the STI is paid as cash in September 2011. The dollar values are contained in remuneration details in Category C.

### DEFERRED PORTION OF STI OUTCOME FOR THE YEAR ENDED 30 JUNE 2011

1/3 of the STI outcome is paid in the form of deferred STI. As this will not be allocated until September 2011, the value of this portion is not included in the 2011 remuneration report. This value will be included in the disclosure for the year ending 30 June 2012.

### DEFERRED STI

Deferred STI is issued in the form of rights over IAG shares held by a trustee. These are DAR and are issued to the Group CEO and the executive team during the financial year for nil consideration to the value of their deferred STI amount. The Group CEO and the executive team that participate in this plan become eligible to receive one IAG ordinary share per DAR, by paying the exercise price of \$1 per tranche of DAR exercised, subject to continuing employment with the Group for a period as determined by the IAG Board. When executives cease employment in special circumstances, such as redundancy, share rights vest on cessation of employment with board discretion.

Details of the DAR granted, vested and exercised during the financial year are detailed below. The DAR granted during the year reflects the deferred portion of the STI outcome for the year ended 30 June 2010.

Note 28 to the financial statements sets out further details of the DAR Plan.

	GRANT DATE <sup>(a)</sup>	VALUE PER	DAR	DAR	DAR	DAR	TOTAL	TOTAL	TOTAL
		DAR AT GRANT DATE	GRANTED DURING THE YEAR	VESTED DURING THE YEAR	EXERCISED DURING THE YEAR	LAPSED DURING THE YEAR	VALUE OF DAR GRANTED DURING THE YEAR <sup>(b)</sup>	VALUE OF DAR EXERCISED DURING THE YEAR <sup>(c)</sup>	VALUE OF DAR LAPSED DURING THE YEAR <sup>(d)</sup>
		\$	Number	Number	Number	Number	\$000	\$000	\$000
<b>2011</b>									
MJ Wilkins	06/10/2010	3.53	112,200	96,200	96,200	-	396	344	-
JP Breheny	06/10/2010	3.53	58,100	51,010	-	-	205	-	-
A Cornish	06/10/2010	3.53	74,000	38,704	14,250	-	261	51	-
IR Foy	06/10/2010	3.53	42,600	18,650	18,650	-	150	67	-
P Harmer	No DAR granted	-	-	-	-	-	-	-	-
NB Hawkins	06/10/2010	3.53	51,900	44,420	44,420	-	183	159	-
JS Johnson	06/10/2010	3.53	50,400	52,940	88,190	-	178	316	-
LC Murphy	06/10/2010	3.53	42,700	32,240	32,240	-	151	115	-
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>									
N Utley	No DAR granted	-	-	71,050	71,050	(55,050)	-	254	(197)
DG West	06/10/2010	3.53	70,600	41,140	54,790	(109,010)	249	196	(390)
			<u>502,500</u>	<u>446,354</u>	<u>419,790</u>	<u>(164,060)</u>	<u>1,773</u>	<u>1,502</u>	<u>(587)</u>

(a) All DAR granted on 6 October 2010 have a first exercisable date of 1 July 2011 and a last expiry date of 6 October 2017.

(b) The value of DAR granted in the year is the fair value of the DAR at grant date using Black Scholes valuation model. The total value of the DAR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2011 to 30 June 2013).

(c) DAR vested on or before 1 July 2010 that were exercised in the financial year. The value of DAR exercised is based on the weighted average share price which was \$3.58 for the year ended 30 June 2011.

(d) The value of DAR lapsed is based on the weighted average share price which was \$3.58 for the year ended 30 June 2011.

## ii. Long term incentive

LTI is awarded as grant of rights over IAG ordinary shares in the form of EPR. These are exercisable for shares between three and five years after the date of grant if performance hurdles are achieved.

The current EPR series has two performance hurdles - ROE and TSR. 50% of each allocation is subject to the ROE hurdle and 50% is subject to the TSR hurdle:

- ROE is measured relative to IAG's weighted average cost of capital. This hurdle has been chosen as it provides evidence of company growth in profitability and is linked to shareholder return. For share rights granted in the year ended 30 June 2011, the ROE hurdle is cash ROE (normalised ROE for grants prior to the year ended 30 June 2009) to align with the reporting of IAG's financial performance to the external market.
- The TSR hurdle has been chosen as it provides a direct link between executive reward and shareholder return. For those share rights allocated after 30 June 2009, TSR is measured against that of other companies in the top 50 industrials within the S&P/ASX 100 Index.

LTI grants are determined annually and are aligned to the Group's strategic financial targets. These are based on an assessment of market benchmarks, performance, leadership capability and strategic input.

The amount of LTI granted each year is determined by the IAG Board.

Under the terms of the LTI, if an executive ceases employment with IAG before the performance conditions are tested, then the unvested LTI will generally lapse. In cases where the executive acts fraudulently, dishonestly or is, in the IAG Board's opinion, in breach of his or her obligations to the company, then also the unvested LTI will lapse.

Details of the terms of allocations made to the Group CEO and the executive team under the LTI Plan are in the table below.

LTI PLAN	EPR PLAN 2007/2008 - SERIES 1		EPR PLAN 2008/2009 - SERIES 2	
	TSR	Normalised ROE	TSR	Cash ROE
Grant date	29/10/2007 29/11/2007 13/03/2008	29/10/2007 29/11/2007 13/03/2008	18/09/2008 27/02/2009	18/09/2008 27/02/2009
Base date	30/09/2007	n/a	30/09/2008	n/a
Performance period definition	3-5 years from grant date	1 July 2007 - 30 June 2010	3-5 years from grant date	1 July 2008 - 30 June 2011
IAG share price at base date (\$)	5.31	n/a	4.10	n/a
Performance hurdle test schedule	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ended 30 June 2010	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ended 30 June 2011
First test day	30/09/2010	30/06/2010	30/09/2011	30/06/2011
Last test day	30/09/2012	30/06/2010	30/09/2013	30/06/2011
Performance hurdle achievement	64% vested	Not met, 0% vested	n/a	n/a
Last exercise date (continuing employees only)	29/10/2017 29/11/2017 13/03/2018	29/10/2017 29/11/2017 13/03/2018	18/09/2018 27/02/2019	18/09/2018 27/02/2019
Vesting scale	<ul style="list-style-type: none"> <li>■ Minimum vesting at 0% if TSR &lt; 50th percentile</li> <li>■ Maximum vesting at 100% if TSR &gt;= 75th percentile</li> </ul>	<ul style="list-style-type: none"> <li>■ Minimum vesting at 1.3 x WACC</li> <li>■ Maximum vesting at 1.6 x WACC</li> </ul>	<ul style="list-style-type: none"> <li>■ Minimum vesting at 0% if TSR &lt; 50th percentile</li> <li>■ Maximum vesting at 100% if TSR &gt;= 75th percentile</li> </ul>	<ul style="list-style-type: none"> <li>■ Minimum vesting at 1.5 x WACC</li> <li>■ Maximum vesting at 1.8x WACC</li> </ul>
Vesting date	30/9/2010	none	n/a	n/a
Peer group	All entities within S&P/ASX 100 Index	Normalised ROE	All entities within S&P/ASX 100 Index	Cash ROE

LTI PLAN	EPR PLAN 2009/2010 - SERIES 3		EPR PLAN 2010/2011 - SERIES 4	
	TSR	Cash ROE	TSR	Cash ROE
Grant date	25/09/2009	25/09/2009	06/10/2010	06/10/2010
	24/11/2009	24/11/2009	03/03/2011	03/03/2011
Base date	30/09/2009	n/a	30/09/2010	n/a
Performance period definition	3-5 years from grant date	1 July 2009 - 30 July 2012	3-5 years from grant date	1 July 2010 - 30 July 2013
IAG share price at base date (\$)	3.78	n/a	3.64	n/a
Performance hurdle test schedule	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ending 30 June 2012	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ending 30 June 2013
First test day	30/09/2012	30/06/2012	30/09/2013	30/06/2013
Last test day	30/09/2014	30/06/2012	30/09/2015	30/06/2013
Performance hurdle achievement	n/a	n/a	n/a	n/a
Last exercise date (continuing employees only)	25/09/2016	25/09/2016	06/10/2017	06/09/2017
	24/11/2016	24/11/2016	03/03/2018	03/03/2018
Vesting scale	<ul style="list-style-type: none"> <li>■ Minimum vesting at 0% if TSR &lt; 50th percentile</li> <li>■ Maximum vesting at 100% if TSR &gt;= 75th percentile</li> </ul>	<ul style="list-style-type: none"> <li>■ Minimum vesting at 1.5 x WACC</li> <li>■ Maximum vesting at 1.8x WACC</li> </ul>	<ul style="list-style-type: none"> <li>■ Minimum vesting at 0% if TSR &lt; 50th percentile</li> <li>■ Maximum vesting at 100% if TSR &gt;= 75th percentile</li> </ul>	<ul style="list-style-type: none"> <li>■ Minimum vesting at 1.2 x WACC</li> <li>■ Maximum vesting at 1.6 x WACC</li> </ul>
Vesting date	n/a	n/a	n/a	n/a
Peer group	Top 50 industrials within S&P/ASX 100 Index	Cash ROE	Top 50 industrials within S&P/ASX 100 Index	Cash ROE

### LTI granted year ended 30 June 2011

The LTI granted during the year will have no value unless the performance hurdles outlined above are achieved. These hurdles require superior financial performance over at least a three year period. Details of the LTI granted during the year are set out below.

EPR series 1 - TSR met the performance hurdle on 30 September 2010 and 64% of those rights vested. Note 28 to the financial statements sets out further details of the EPR Plan.

	GRANT DATE <sup>(a)</sup>	EPR GRANTED DURING THE YEAR <sup>(b)</sup> Number	EPR GRANTED DURING THE YEAR <sup>(c)</sup> Number	EPR VESTED DURING THE YEAR Number	EPR EXERCISED DURING THE YEAR Number	EPR LAPSED DURING THE YEAR Number	TOTAL VALUE OF EPR GRANTED DURING THE YEAR <sup>(d)</sup> \$000	TOTAL VALUE OF EPR EXERCISED DURING THE YEAR \$000	TOTAL VALUE OF EPR LAPSED DURING THE YEAR <sup>(e)</sup> \$000
<b>2011</b>									
MJ Wilkins	06/10/2010	424,500	424,500	80,000	80,000	-	<b>2,462</b>	<b>286</b>	-
JP Breheny	06/10/2010	155,800	155,800	31,520	-	-	<b>904</b>	-	-
A Cornish	06/10/2010	174,150	174,150	-	-	-	<b>1,010</b>	-	-
IR Foy	06/10/2010	131,500	131,500	3,680	3,680	-	<b>763</b>	<b>13</b>	-
P Harmer	03/03/2011	142,800	142,800	-	-	-	<b>795</b>	-	-
NB Hawkins	06/10/2010	165,000	165,000	30,720	30,720	-	<b>957</b>	<b>110</b>	-
JS Johnson	06/10/2010	155,800	155,800	31,840	-	-	<b>904</b>	-	-
LC Murphy	06/10/2010	151,250	151,250	11,200	11,200	-	<b>877</b>	<b>40</b>	-
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>									
N Utley	No EPR granted	-	-	45,920	45,920	(896,280)	-	<b>164</b>	<b>(3,209)</b>
DG West	06/10/2010	<u>174,150</u>	<u>174,150</u>	<u>32,000</u>	<u>32,000</u>	<u>(1,079,300)</u>	<b>1,010</b>	<b>115</b>	<b>(3,864)</b>
		<u>1,674,950</u>	<u>1,674,950</u>	<u>266,880</u>	<u>203,520</u>	<u>(1,975,580)</u>	<b>9,682</b>	<b>728</b>	<b>(7,073)</b>

(a) All EPR granted 6 October 2010 and 3 March 2011 have a last expiry date of 6 October 2017 and 3 March 2018 respectively.

(b) EPR granted during the year subject to total shareholder return performance hurdle. Rights granted 6 October 2010 and 3 March 2011 have a grant date value of \$2.42 and \$2.27 respectively. All rights granted during the year are first exercisable 30 September 2013.

(c) EPR granted during the year subject to a return on equity performance hurdle. Rights granted on 6 October 2010 and 3 March 2011 and have a grant date value of \$3.38 and \$3.30 respectively. All rights granted during the year are first exercisable 30 June 2013.

(d) The value of EPR granted in the year is the fair value of the EPR at grant date using Black Scholes (for ROE performance hurdle) and Monte Carlo simulation (for TSR performance hurdle) models. The total value of the EPR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2011 to 30 June 2015).

(e) The value of EPR lapsed is based on the weighted average share price which was \$3.58 for the year ended 30 June 2011.

## LTI GRANTED PRIOR TO 2008 - PERFORMANCE AWARD RIGHTS PLAN

Prior to the introduction of the EPR Plan, LTI was granted in the form of performance award rights (PAR). No allocations have been made under the PAR Plan since 2007 and no further allocations are planned.

PAR are rights over IAG shares held by a trustee. The rights are granted at no cost to the executive team and may be exercised for a nominal price if a performance hurdle related to IAG's TSR is met.

Details of the terms of allocations made to the executive team under the PAR Plan, including those allocations that at the date of this report are partially exercisable or not exercisable, are summarised below.

LTI PLAN	PAR PLAN 2005/2006 - SERIES 4	PAR PLAN 2006/2007 - SERIES 5
Grant date	19/09/2005 30/11/2005 22/03/2006	19/12/2006 13/03/2007
Performance period definition <sup>(a)</sup>	3-5 years from base date	3-5 years from base date
IAG share price at base date (\$)	5.87	5.29
Performance hurdle test schedule	Quarterly - last trading day of each calendar quarter in the performance period	Quarterly - last trading day of each calendar quarter in the performance period
First test day	30/09/2008	30/09/2009
Last test day	30/06/2010	30/06/2011
Performance hurdle achievement	Partially achieved, 54% of PAR are exercisable, the remaining 46% lapsed on 23 August 2010	Not met, 0% vested, 100% will lapse on 29 August 2011
Last exercise date	19/09/2015	19/12/2016
(continuing employees only)	30/11/2015 22/03/2016	13/03/2017

(a) The performance period will be shortened if the employee ceases employment with the Group due to redundancy or in other special circumstances.

(b) The base date is the second trading day after the date on which IAG's financial results for the 12 month period ended on the 30 June that immediately precedes the grant date are announced to the Australian Securities Exchange.

On 30 June 2010, the PAR Plan 2005/2006 - series 4 reached the last performance hurdle test. During the previous performance hurdle tests, 54% of the rights vested in the financial year ended 30 June 2009. The remaining 46% of the rights issued lapsed on 23 August 2010.

On 30 June 2011, the PAR Plan 2006/2007 - series 5 reached the last performance hurdle test. The performance hurdle was not met throughout the testing period and 100% of the rights issued will lapse on 29 August 2011.

Note 28 to the financial statements sets out further details of the PAR Plan.

	PAR LAPSED Number	TOTAL VALUE OF PAR LAPSED DURING THE YEAR <sup>(a)</sup> \$000
<b>2011</b>		
MJ Wilkins	-	-
JP Breheny	(46,000)	(156)
A Cornish	-	-
IR Foy	(9,430)	(32)
P Harmer	-	-
NB Hawkins	(20,930)	(71)
JS Johnson	(10,350)	(35)
LC Murphy	-	-
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>		
N Utley	(44,500)	(159)
DG West	-	-
	<u>(131,210)</u>	<u>(453)</u>

(a) All rights lapsed during the financial year in relation to PAR Plan 2005/2006 - series 4 which did not meet the performance hurdles. The value of PAR lapsed is based on the weighted average share price which was \$3.40 for 5 days before 30 June 2010 (the last performance test date). For Mr Utley, his PAR Plan 2006/2007 - series 5 rights lapsed on the date of his cessation of employment. The value of PAR lapsed for Mr Utley is based on the weighted average share price which was \$3.58 for the year ended 30 June 2011.

There were no PAR vested and exercised during the financial year.

### III. Managing risk

#### a. RESTRICTIONS ON DEALING IN IAG SECURITIES

In addition to legal requirements that prevent any person from dealing in IAG securities when in possession of undisclosed price sensitive information, the IAG Board implemented a restriction policy in 2010 that prohibits directors, the executive team members and other designated senior managers from:

- dealing in IAG securities when in possession of price sensitive information;
- short term or speculative trading in IAG securities;
- transactions that limit economic risk associated with unvested entitlements to IAG securities (including EPR, DAR and PAR); and
- any trading in IAG securities without prior approval of the NRSC.

A copy of IAG's Security Trading Policy is available at [www.iag.com.au/about/governance/codes](http://www.iag.com.au/about/governance/codes).

#### b. MANDATORY SHAREHOLDING REQUIREMENT

All executives are required to hold a proportion of their remuneration as IAG ordinary shares. The Group CEO is required to have a holding of IAG ordinary shares with a value of two times his base salary, within four years of appointment. Other executives are required to accumulate and maintain IAG ordinary shares with a value that is equal to their base salary within four years of their appointment to the executive team.

#### i. Tracking against mandatory shareholding requirements for the year ended 30 June 2011

The number of IAG ordinary shares held by executive team at 30 June 2011, including tracking against the mandatory shareholding requirement, is set out below.

NAME	IAG	ACHIEVEMENT OF	EFFECTIVE DATE OF
	SHAREHOLDING <sup>(a)</sup>	MANDATORY	MANDATORY
	Number of shares	SHAREHOLDING	SHAREHOLDING
		REQUIREMENT <sup>(b)</sup>	REQUIREMENT <sup>(c)</sup>
		%	
MJ Wilkins	306,366	30%	26/05/2012
JP Breheny	230,400	Met requirement	01/09/2010
A Cornish	63,158	26%	02/02/2013
IR Foy	12,518	7%	05/08/2012
P Harmer	-	-%	08/11/2014
NB Hawkins	255,555	92 % <sup>(d)</sup>	01/09/2010
JS Johnson	210,258	98 % <sup>(d)</sup>	01/09/2010
LC Murphy	67,356	31%	03/12/2011

(a) Includes executive's directly held shares and DAR vested and unexercised as at 30 June 2011. It includes entities controlled, jointly controlled or significantly influenced by the executive. Excluded are shares held by the executives' domestic partner and dependants.

(b) The above table is a voluntary disclosure. The achievement of mandatory shareholding requirement is calculated using the base salary of executives (two times base salary of the Group CEO) and the IAG share price (\$3.40) as at 30 June 2011.

(c) JP Breheny, NB Hawkins and JS Johnson were appointed to the executive team prior to the introduction of the mandatory shareholding requirement. These executives are required to accumulate and hold IAG ordinary shares with a value that is equal to their base salary within three years from 1 September 2007.

(d) NB Hawkins and JS Johnson met the mandatory shareholding requirement at the effective date (1 September 2010). On 1 July 2011, some of the DAR granted to them in the prior periods vested and were exercised. When these additional IAG ordinary shares are included, they meet the mandatory shareholding requirement as at 25 August 2011.

### IV. Return to shareholders

The following table outlines the returns IAG delivered to its shareholders for the last six financial years in relation to the closing share price, dividend paid, earnings per share (basic) and LTI hurdles.

	YEAR ENDED 30	YEAR ENDED 30	YEAR ENDED 30	YEAR ENDED 30	YEAR ENDED 30	YEAR ENDED 30
	JUNE 2006	JUNE 2007	JUNE 2008	JUNE 2009	JUNE 2010	JUNE 2011
Closing share price (\$)	5.35	5.70	3.47	3.51	3.41	<b>3.40</b>
Dividend paid (cents)	42.00	29.50	22.50	10.00	13.00	<b>16.00</b>
Basic earnings per share (cents)	47.66	32.79	(14.11)	9.32	4.39	<b>12.08</b>
Cash ROE (%) <sup>(a)</sup>	n/a	n/a	2.7	4.9	8.3	<b>11.1</b>
Normalised ROE (%) <sup>(a)</sup>	16.0	12.9	n/a	n/a	n/a	<b>n/a</b>
TSR (%) <sup>(b)</sup>	(5.3)	11.2	(36.1)	1.3	(0.5)	<b>3.0</b>

(a) Normalised ROE ceased to be a performance measure from 30 June 2008. The Group's communication to internal and external stakeholders based on the cash ROE.

(b) This represented the TSR performance measured for the 12 months period from 1 July to 30 June. This is only an indication of IAG's performance for the relevant financial year.

## C. EXECUTIVE REMUNERATION IN DETAIL

### I. Total remuneration of executives of the Group

The table below provides remuneration details of the Group CEO and the executive team (including those executives who left the executive team during the prior year). For an executive who was newly appointed to the executive team during either financial year, the remuneration information provided in the table below relates to the periods from the date of their appointment as key management personnel (KMP) to the years ended 30 June.

Table note	(1)	(2)	(3)	(4)	(5)				(6)	(7)	TOTAL
	SHORT TERM EMPLOYMENT BENEFITS	POST EMPLOYMENT BENEFITS	OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SUB TOTAL (EXCLUDES SHARE BASED PAYMENT)	SHARE BASED PAYMENT	SHARE BASED PAYMENT	SHARE BASED PAYMENT	SHARE BASED PAYMENT	SHARE BASED PAYMENT	SHARE BASED PAYMENT
	Base salary	Short term incentive	Other	Super-annuation	Retirement benefits	Long service leave accruals			Value of deferred short term incentive	Value of rights/shares granted	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>EXECUTIVES (INCLUDING EXECUTIVE DIRECTOR)</b>											
MJ Wilkins, Managing Director and Chief Executive Officer											
<b>2011</b>	<b>1,996</b>	<b>1,104</b>	-	<b>38</b>	-	-	-	<b>3,138</b>	<b>467</b>	<b>2,136</b>	<b>5,741</b>
2010	1,868	765	-	38	-	12	-	2,683	282	1,330	4,295
JP Breheny, Chief Executive Officer, Asia											
<b>2011</b>	<b>812</b>	<b>429</b>	-	<b>50</b>	-	<b>1</b>	-	<b>1,292</b>	<b>197</b>	<b>824</b>	<b>2,313</b>
2010	802	396	-	50	-	7	-	1,255	182	702	2,139
A Cornish, Chief Executive Officer, Australia Direct											
<b>2011</b>	<b>962</b>	<b>610</b>	-	<b>15</b>	-	<b>1</b>	-	<b>1,588</b>	<b>200</b>	<b>732</b>	<b>2,520</b>
2010	860	504	-	23	-	3	-	1,390	119	423	1,932
IR Foy, Chief Executive Officer, UK <sup>(b)</sup>											
<b>2011</b>	<b>567</b>	<b>292</b>	<b>575</b>	<b>99</b>	-	-	-	<b>1,533</b>	<b>100</b>	<b>538</b>	<b>2,171</b>
2010	464	290	-	73	-	-	-	827	70	339	1,236
P Harmer, Chief Executive Officer, CGU, KMP since 8 November 2010 <sup>(a)</sup>											
<b>2011</b>	<b>597</b>	<b>275</b>	-	<b>16</b>	-	<b>1</b>	-	<b>889</b>	-	<b>88</b>	<b>977</b>
NB Hawkins, Chief Financial Officer											
<b>2011</b>	<b>915</b>	<b>460</b>	-	<b>25</b>	-	<b>22</b>	-	<b>1,422</b>	<b>174</b>	<b>851</b>	<b>2,447</b>
2010	863	354	-	25	-	4	-	1,246	151	664	2,061
JS Johnson, Chief Executive Officer, New Zealand <sup>(b)</sup>											
<b>2011</b>	<b>735</b>	<b>337</b>	<b>55</b>	<b>7</b>	-	<b>34</b>	-	<b>1,168</b>	<b>187</b>	<b>825</b>	<b>2,180</b>
2010	774	343	-	22	-	7	-	1,146	188	650	1,984
LC Murphy, Chief Strategy Officer <sup>(b)</sup>											
<b>2011</b>	<b>811</b>	<b>404</b>	-	<b>25</b>	-	<b>1</b>	-	<b>1,241</b>	<b>151</b>	<b>677</b>	<b>2,069</b>
2010	688	291	-	25	-	5	-	1,009	119	430	1,558
<b>EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL</b>											
K Armstrong, former acting Chief Executive Officer, New Zealand, KMP only for the period from 1 September 2010 to 31 October 2010 <sup>(c)</sup>											
<b>2011</b>	<b>76</b>	<b>15</b>	<b>1</b>	<b>8</b>	-	-	-	<b>100</b>	-	-	<b>100</b>
N Utley, former Managing Director, UK, KMP until 31 October 2010 <sup>(b)</sup>											
<b>2011</b>	<b>247</b>	-	<b>9</b>	<b>32</b>	-	-	<b>942</b>	<b>1,230</b>	<b>50</b>	<b>(1,342)</b>	<b>(62)</b>
2010	854	-	789	107	-	-	-	1,750	282	863	2,895
DG West, former Chief Executive Officer, CGU, KMP until 31 January 2011 <sup>(b)</sup>											
<b>2011</b>	<b>548</b>	-	-	<b>15</b>	-	<b>(15)</b>	-	<b>548</b>	<b>25</b>	<b>(856)</b>	<b>(283)</b>
2010	898	481	-	25	-	6	-	1,410	140	584	2,134

#### a. FOOTNOTES TO THE REMUNERATION OF EXECUTIVES

- (a) For an executive who was newly appointed to the executive team during either financial year, the remuneration information provided in the table above relates to the period from the date of their appointment as KMP to 30 June. The balances are calculated based on the proportion of the year that they were KMP.
- (b) During the year, there were a number of changes in role of the executives. IR Foy, former Chief Executive Officer, New Zealand became Chief Executive Officer, UK from 1 September 2010, succeeding N Utley. JS Johnson, former Chief Executive Officer, The Buzz became the Chief Executive Officer, New Zealand, from 1 November 2010, succeeding IR Foy. LC Murphy, the former Group Executive, Corporate Office became Chief Executive Officer, The Buzz from 1 November 2010 succeeding JS Johnson. In July 2011, LC Murphy changed title to Chief Strategy Officer and The Buzz business passed to the Australia Direct operation. N Utley and DG West ceased to be KMP during the year ended 30 June 2011. The remuneration details in the table above for the executives, who ceased as KMP during a financial year, relate only to the period that they were KMP.
- (c) K Armstrong was appointed as acting Chief Executive Officer, New Zealand for the period only from 1 September 2010 to 31 October 2010 pending the arrival of JS Johnson transitioning from her previous executive role. Given the short period of time when Mr Armstrong acted as a KMP, only his remuneration for the period between 1 September 2010 to 31 October 2010 is disclosed. All the other detailed information that is provided for other longer serving KMP such as grants of DAR and EPR is not included.

b. TABLE NOTE

P Harmer (commenced on 8 November 2010) joined the executive team during the year ended 30 June 2011.

- (1) Base salary includes amounts paid in cash and salary sacrifice items such as superannuation, cars (including the 30% tax rebate on car expenses), parking and annual leave accruals, as determined in accordance with AASB 119 Employee Benefits. Prior year's base salary was restated to include the 30% tax rebate on car expenses for certain KMP who have salary sacrifice arrangements on car. Total amount restated was \$90,000.
- (2) Short term incentive represents the amount to be settled in cash in relation to the current performance period.
- (3) Other short term employment benefits for the various KMP represents:
  - IR Foy, the relocation costs and accommodation allowances for taking up a new role in a different country. This balance included the loss on sale of the NZ residence, plus the associated transaction costs, of \$291,000 (NZ\$380,000) of Mr Foy's NZ residence in order to speed up the relocation;
  - JS Johnson, the relocation costs and accommodation allowances for taking up a new role in a different country;
  - K Armstrong, the life insurance provided in the NZ employment arrangement; and
  - N Utley, the medical insurance and car allowances provided in the UK employment arrangement. In prior year, Mr Utley was paid a retention incentive (\$789,000) to ensure that he remained with the business when IAG exited UK mass market operation.
- (4) Superannuation represents the employer's contributions. Refer to note 29 for details of how the superannuation plans operate.
- (5) Long service leave accruals as determined in accordance with AASB 119 Employee Benefits.
- (6) The deferred 2009 and 2010 STI is granted as DAR and an allocated portion of unvested DAR is included in the total remuneration disclosure above. DAR are valued using a Black Scholes valuation model. The deferred 2011 STI will be granted in the next financial year and therefore no value was included in the table above.
- (7) An allocated portion of unvested EPR, DAR and PAR (an allocation from the prior year's grants) is included in the total remuneration disclosure above.

To determine the EPR and PAR values the Monte Carlo simulation methodology model has been applied. The valuation takes into account the exercise price of the EPR and PAR, life of the EPR and PAR, current price of IAG ordinary shares, expected volatility of the IAG share price, expected dividends, risk free interest rate, the performance of the shares in the peer group of companies, early exercise and non transferability, and turnover which is assumed to be zero for an individual's remuneration calculation. DAR are valued using a Black Scholes valuation model.

## II. Total remuneration mix

Total remuneration for executives is comprised of at risk and not at risk remuneration. Fixed pay is not at risk, while short term incentive and share based remuneration provided through the DAR, EPR and PAR Plans are at risk. The use of share based remuneration creates a direct link between return to shareholders and executive remuneration. To strengthen alignment between the interests of the Group CEO and the executive team and those of shareholders, a significant portion of executive remuneration is delivered in the form of rights over IAG ordinary shares.

EXECUTIVES	NOT AT RISK				AT RISK	
	Fixed remuneration and other %	Cash STI %	Deferred STI %	LTI %	Total at risk %	
MJ Wilkins	35	19	8	38	65	
JP Breheny	37	19	9	35	63	
A Cornish	39	24	8	29	61	
IR Foy	57	13	5	25	43	
P Harmer	63	28	-	9	37	
NB Hawkins	39	19	7	35	61	
JS Johnson	38	15	9	38	62	
LC Murphy	40	20	7	33	60	

### III. SERVICE AGREEMENTS

All service agreements for the Group CEO and the executive team are unlimited in term but may be terminated by written notice from either party or by IAG making a payment in lieu of notice. The service agreements outline the components of remuneration paid to executives and require the remuneration of executives to be reviewed annually. The service agreements do not require IAG to increase base salary, pay a short term incentive or offer a long term incentive in any given year.

NAME	NOTICE PERIOD FROM THE COMPANY	NOTICE PERIOD FROM THE EMPLOYEE	TERMINATION PROVISIONS
MJ Wilkins	12 months	6 months	12 months fixed pay, plus payment for annual leave, long service leave and short term incentive that would have accrued for 12 months had termination not occurred. An additional 6 months of fixed pay is payable if IAG invokes a restraint clause.
JP Breheny	12 months	3 months	12 months base salary
A Cornish	12 months	3 months	12 months fixed pay
IR Foy	12 months	3 months	12 months fixed pay
P Harmer	12 months	6 months	12 months base salary
NB Hawkins	12 months	3 months	12 months base salary
JS Johnson	12 months	3 months	12 months base salary
LC Murphy	12 months	3 months	12 months base salary

Executives are employed by Insurance Australia Group Services Pty Limited, except for:

- IR Foy who is employed by Equity Insurance Management Limited; and
- JS Johnson who is employed by IAG New Zealand Limited.

#### a. RETRENCHMENT

In the event of retrenchment, the executives listed above (except for IR Foy and JS Johnson) are entitled to the greater of:

- the written notice or payment in lieu of notice as provided in their service agreement; or
- the retrenchment benefits due under the relevant company retrenchment policy.

For executives based in Australia, the minimum benefit under the retrenchment policy is 11 weeks of base salary and the maximum benefit that can be received is 87 weeks of base salary. The maximum benefit is payable to employees with service of 25 years or more.

For IR Foy and JS Johnson, the retrenchment payment is in accordance with the termination provisions specified in the table above.

#### b. TERMINATION OF EMPLOYMENT WITHOUT NOTICE AND WITHOUT PAYMENT IN LIEU OF NOTICE

The employment of the executives may be terminated without notice or payment in lieu of notice in some circumstances. Generally, this could occur where the executive:

- is charged with a criminal offence that is capable of bringing the organisation into disrepute;
- is declared bankrupt;
- breaches a provision of their employment agreement;
- is guilty of serious and wilful misconduct; or
- unreasonably fails to comply with any material and lawful direction given by the Company.

#### c. TERMINATION OF EMPLOYMENT WITH NOTICE OR PAYMENT IN LIEU OF NOTICE

The employment of the executives may be terminated at any time by the Company with notice or payment in lieu of notice. The amount of notice the Company must provide or the payment in lieu of notice is specified above.

## D. NON-EXECUTIVE DIRECTORS REMUNERATION

### I. Structure and policy

#### a. REMUNERATION POLICY

The principles that underpin IAG's approach to remuneration for non-executive directors are that remuneration should:

- be sufficiently competitive to attract and retain a high calibre of non-executive director; and
- create alignment between the interests of non-executive directors and shareholders.

#### b. SIGNIFICANT CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION

On 24 August 2010, the IAG Board approved the following adjustments to the director fee based on the report from PwC and the recommendation from the management committee in relation to the fees payable to the directors:

- a 4.0% increase in the IAG Board fees to maintain market competitiveness;
- a 7.7% increase in the NRSC fee to maintain market competitiveness and recognise the increased responsibilities for NRSC given the current focus on remuneration governance; and
- no change to the IAG ARMCC fee.

The fee adjustments were effective from 1 July 2010. The last board and committee fee increase took place in July 2007.

#### c. REMUNERATION STRUCTURE

Non-executive director remuneration consists of three components, which are:

- Board fees (payable as cash and IAG ordinary shares prior to 1 December 2009);
- superannuation; and
- subsidiary board and committee fees.

The aggregate limit of remuneration remained unchanged at \$2,750,000 per annum. This limit was approved by shareholders at the 2007 annual general meeting. The aggregate annual remuneration is inclusive of employer superannuation contributions paid by IAG on behalf of non-executive directors.

#### i. IAG Board and committee fees

BOARD/COMMITTEE	ROLE	ANNUAL FEE
IAG Board	Chairman	\$468,000
	Non-executive director	\$156,000
IAG Audit, Risk Management & Compliance Committee	Chairman	\$54,000
	Member	\$27,000
IAG Nomination, Remuneration & Sustainability Committee	Chairman	\$35,000
	Member	\$17,500

#### ii. Superannuation

IAG pays a 9% superannuation contribution on directors' fees. The directors can elect to have the superannuation contribution be paid partially as cash and partially into a superannuation fund as nominated, or be fully paid into a superannuation fund. Directors' fees and superannuation contributions are paid monthly.

IAG has a Non-executive Directors' Expenses policy. Under this policy IAG reimburses expenses reasonably incurred by the non-executive directors in connection with the discharge of their duties.

#### iii. Non-executive directors' service on subsidiary boards

A summary of non-executive directors' service on subsidiary company boards and the fees payable is set out in the following table.

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
BM Schwartz <sup>(a)</sup>	Insurance Manufacturers of Australia Pty Limited	Chairman	\$208,000
A Hynes <sup>(b)</sup>	Mutual Community General Insurance Proprietary Limited	Director	\$16,250
HA Fletcher <sup>(c)</sup>	IAG New Zealand Limited	Chairman	\$80,490

(a) The annual fee for BM Schwartz is inclusive of committee fees. Mr Schwartz took up the chairman role on 26 August 2010 replacing Mr JA Strong.

(b) A Hynes was appointed as a director of this company on 30 September 2010 whilst YA Allen resigned on 30 September 2010.

(c) This amount was paid to HA Fletcher in New Zealand dollars and has been converted to Australian dollars using the average exchange rate for the year.

#### iv. PERFORMANCE

Directors' performance is subject to evaluation by the chairman annually by discussion between the chairman and the individual director. In these discussions, the individual directors also evaluate the chairman's performance. Performance measures for directors considered by the chairman and IAG Board include:

- contribution of the director to board teamwork;
- contribution to debates on significant issues and proposals;
- advice and assistance given to management;
- in the case of the chairman's performance, the fulfilment of the additional role as chairman; and
- input regarding regulatory, industry and social developments surrounding the business.

The NRSC has responsibility for coordinating the IAG Board's review of the chairman's performance.

## II. Total remuneration details

The table below provides remuneration details of the non-executive directors (including those non-executive directors who retired during the financial year) on the IAG Board.

For those directors commenced during the financial year, the remuneration information provided in the table below relates to the period from the date of their appointment to the year ended 30 June 2011.

	SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL
	IAG Board fees received as cash*	Other boards and committee fees	Superannuation	Retirement benefits			IAG Board fees received as IAG shares	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
BM Schwartz								
<b>2011</b>	<b>453</b>	<b>203</b>	<b>24</b>	-	-	-	-	<b>680</b>
2010	137	71	14	-	-	-	19	241
YA Allen								
<b>2011</b>	<b>161</b>	<b>68</b>	<b>15</b>	-	-	-	-	<b>244</b>
2010	144	87	14	-	-	-	13	258
PH Bush (director since 7 December 2010)								
<b>2011</b>	<b>89</b>	<b>15</b>	<b>9</b>	-	-	-	-	<b>113</b>
PM Colebatch								
<b>2011</b>	<b>156</b>	<b>18</b>	<b>16</b>	-	-	-	-	<b>190</b>
2010	119	50	15	-	-	-	31	215
HA Fletcher								
<b>2011</b>	<b>156</b>	<b>107</b>	<b>16</b>	-	-	-	-	<b>279</b>
2010	107	111	16	-	-	-	43	277
A Hynes								
<b>2011</b>	<b>156</b>	<b>32</b>	<b>17</b>	-	-	-	-	<b>205</b>
2010	138	27	16	-	-	-	13	194
PJ Twyman								
<b>2011</b>	<b>159</b>	<b>50</b>	<b>15</b>	-	-	-	-	<b>224</b>
2010	136	27	14	-	-	-	16	193
RETIRED DIRECTOR								
JA Strong (retired on 26 August 2010)								
<b>2011</b>	<b>73</b>	<b>30</b>	<b>9</b>	<b>295</b>	-	-	-	<b>407</b>
2010	400	195	14	-	-	-	94	703

\* This balance included the portion of the Company's superannuation contribution that the directors elected to receive as cash instead of paying into their nominated superannuation fund.

### a. RETIREMENT BENEFITS

IAG decided to freeze the operation of the non-executive director retirement benefit scheme adopted by IAG in 2001 with effect from 1 September 2003.

A retirement benefit of \$295,000 was paid to JA Strong following his retirement from the IAG Board on 26 August 2010.

### E. OTHER BENEFITS

Remuneration does not include premiums paid by IAG for an insurance contract covering current and former directors' and executives' liabilities and legal expenses incurred in respect of the relevant office, as the insurance policies do not specify premiums paid in respect of individual directors and executives and the terms of contract specifically prohibit the disclosure of the premium paid. Insurance products provided by the Group are also available to all directors and executives on the same terms and conditions available to other employees.

## F. GLOSSARY OF TERMS

TERM	DEFINITION
Nomination, Remuneration & Sustainability Committee	The Nomination, Remuneration & Sustainability Committee (NRSC) is an IAG Board committee which oversees IAG's remuneration practices.
Key management personnel	The IAG key management personnel (KMP) comprises the Group CEO and the executive team responsible for managing the Group, and the IAG Board of directors (including the Group CEO).
Group CEO	Refers to the Group's Managing Director and Chief Executive Officer.
Executive team	Refers to the senior executives who report directly to the Group CEO.
Executives	Refers to the Group CEO and the executive team.
Actual remuneration	Refers to the dollar value of the remuneration actually received in the hand of the executive team in the financial year ended 30 June 2011. It is a sum of fixed remuneration plus cash portion of short term incentive (STI) plus value of deferred award rights (DAR) vested in 2011 plus value of long term incentive (LTI) in the form of executive performance rights (EPR) vested in 2011.
At risk remuneration	Refers to the components of remuneration that are at risk and dependent on a combination of the financial performance of the Group and the executive's financial and non financial measures. This typically comprises short term incentive (cash and deferred) and long term incentive.
Fixed remuneration	Fixed remuneration is defined as base salary (including annual leave) plus superannuation. Individuals can determine the mix of base salary and superannuation in line with legislative requirements.
Short term incentive	<p>Short term incentive (STI) refers to the part of the at risk component of remuneration that is designed to motivate and reward for performance typically in that financial year. The performance for the achievement of STI is measured using a balanced scorecard based on goals set against financial and non financial measures.</p> <p>For the Group CEO and the executive team, 2/3 of STI is paid as cash for the same financial year, and the remaining 1/3 of STI is deferred over a period of two years.</p>
Cash STI	Refers to the 2/3 portion of STI for the financial year ended 30 June 2011 that is paid in the form of cash in September 2011 after the end of year assessment and STI approval by the IAG Board.
Deferred STI	Refers to the 1/3 portion of STI that is deferred over a period of two years. This portion of STI is awarded in the form of deferred award rights (DAR). At the date of vesting, the holder of DAR is eligible to receive one IAG ordinary share per DAR, by paying the exercise price of \$1 per tranche of DAR exercised.
Long term incentive	Long term incentive (LTI) is a grant of rights over IAG ordinary shares in the form of executive performance rights (EPR) that are exercisable for shares between three and five years after the date of grant if performance hurdles are achieved.
Cash ROE	Refers to cash return on equity (ROE) based on cash earnings on average total shareholders' equity during the financial year. Cash earnings is defined as net profit after tax attributable to IAG shareholders plus amortisation of acquired identifiable intangibles and adjusted for unusual items.
Normalised ROE	This is based on the normalised earnings on average total shareholders' equity during the financial year. Normalised earnings is defined as net profit after tax attributable to IAG shareholders adjusted by actual shareholders' return with the earnings that would have been generated using the daily average 10 year bond rate plus 4% (adjusted with tax impact) and amortisation.
Total shareholder return (TSR)	TSR is a concept used to measure performance of different companies over a period of time. It combines share price appreciation and dividends paid to show total return to shareholders. IAG uses relative TSR as one of the measures for its LTI. This reflects the performance of the IAG share price relative to that of its peer group (as defined by the LTI performance hurdle).