

CORPORATE GOVERNANCE

ITEM 1. IAG'S APPROACH TO CORPORATE GOVERNANCE

A. EVOLVING FRAMEWORK

IAG (also referred to as the Group) is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and to create long term value for its shareholders. To achieve this, the Company promotes a culture that rewards performance, integrity, respect, and a considered sense of urgency.

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

B. REGULATORY ENVIRONMENT

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

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

In the past year, the Group has again actively participated in the debate to improve Australia's corporate governance regime, making submissions to Federal and State Government committees, reviews and enquiries and regulators in relation to new legislation and regulation affecting the general insurance industry. The Group has also participated in a number of reviews of the New Zealand regulatory and legislative framework. As part of IAG's commitment to open and transparent communication, all public government submissions are available to view on the IAG website at iag.com.au.

In addition, IAG representatives continued to participate in forums, working parties, committees of domestic and overseas insurance industry associations, accounting and actuarial professional bodies to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices that have particular application to the general insurance industry.

Throughout the reporting period, the Group has complied with the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition).

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS	WHERE YOU CAN FIND COMMENTARY ON HOW IAG APPLIES THESE PRINCIPLES AND RECOMMENDATIONS
1. Lay solid foundations for management and oversight	Item 2A and item 7A
2. Structure the board to add value	Items 2B–2G and item 4
3. Promote ethical and responsible decision making	Items 5A–5C and item 9
4. Safeguard integrity in financial reporting	Item 4A and item 4C
5. Make timely and balanced disclosure	Item 5C
6. Respect the rights of shareholders	Item 6
7. Recognise and manage risk	Item 4C and item 7
8. Remunerate fairly and responsibly	Item 4B, item 8 and pages 18 to 34 of the remuneration report

ITEM 2. THE BOARD OF DIRECTORS

A. ROLES AND RESPONSIBILITIES

The board

The board is accountable to shareholders for the performance, operations and affairs of the Group. The board's principal role is to govern, rather than manage, the Group.

The directors represent and serve the interests of the shareholders and collectively oversee and appraise the strategies, policies and performance of the Group.

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

- driving the strategic direction of the Group (and approving Group strategies);
- approving significant corporate initiatives including major acquisitions, projects and divestments, and capital management transactions;
- setting the Group's risk appetite;
- selecting appropriate candidates and recommending to IAG shareholders the election or removal of directors;
- evaluating board processes and performance of the board as a whole, as well as contributions by individual directors;
- monitoring management's performance and the exercise of the board's delegated authority;

- regularly evaluating 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, social and environmental responsibility) are adhered to at all times.

More details on the board's responsibilities are set out in the board charter which can be found at www.iag.com.au/about/governance.

The chief executive officer

The board has delegated responsibility for the overall management and profit performance of the Group, including all the day to day operations and administration of the Group, to the CEO, who is responsible for:

- the efficient and effective operation of the Group;
- fostering a culture that rewards performance, integrity, respect and a considered sense of urgency;
- ensuring the ongoing development, implementation and monitoring of the Group's risk management and internal controls framework;
- ensuring the board is provided with accurate and clear information in a timely manner to promote effective decision making by the board; and
- ensuring all material matters affecting the Group are brought to the board's attention.

The CEO manages the Group in accordance with the policies, budget, corporate plan, and strategies approved by the board, and has the power to manage the Group, subject to the limits set out in the Charter of CEO Delegated Authority Limits (a copy of which can be found attached to the board charter at IAG's website at www.iag.com.au/about/governance).

The chairman

The chairman provides leadership to the board and the Group. The chairman presides at board and general meetings of the Company. The chairman is responsible for ensuring the board discharges its role, and works closely with the CEO in that regard. The roles of the chairman and the CEO are separate.

B. STRUCTURE AND COMPOSITION OF THE BOARD

Structure and composition

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

The board currently comprises seven non-executive independent directors and one executive director, Michael Wilkins, the CEO of IAG.

The board considers its size and composition annually. The board's policy is to ensure that the board comprises directors who collectively have the relevant experience, knowledge and skills required for the company, taking into account its current size, market position, complexity and strategic focus, and assist in maintaining the independence of the board. In reviewing its composition and requirements for director succession, the board is also mindful of the corporate governance practices and requirements for directors of general insurance companies.

Appointment of directors

The Nomination, Remuneration & Sustainability Committee (NRSC) assesses the skills required to discharge competently the board's duties, having regard to the company's performance, financial position and strategic direction, including the specific knowledge, skills and experience that the NRSC determines as necessary for one or more of the directors to possess.

The NRSC annually makes recommendations to the board on candidates for appointment and re-election of directors, either when a vacancy arises or if it is considered that the board would benefit from the services of a new director, with particular attention given to the mix of skills, experience and expertise of existing directors and how the candidate's competencies will complement and balance these qualities.

The NRSC charter, which lists the committee's responsibilities, can be found at www.iag.com.au/about/governance.

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

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

The names of directors in office at the date of this report, their year of appointment, their designation as a non-executive independent or executive director and their experience, expertise and biographical details are set out at pages 11 to 13.

Director independence

The board has determined that the board must be comprised of a majority of independent non-executive directors and that the chairman must be an independent non-executive director.

The board will determine whether each director is independent, using the principles outlined in its charter which can be viewed at www.iag.com.au/about/governance.

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

Potential conflicts of interest

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

C. NON-EXECUTIVE DIRECTOR INDUCTION AND TRAINING

The Group encourages continuing professional education for each of its directors. All directors are expected to remain up to date in relation to issues affecting the Group, the general insurance industry, and their duties as directors.

New directors and senior executives have access to an orientation programme to introduce the executive team and the detail of the Group's businesses. Orientation includes individual meetings with the CEO, Group executives and other senior management, as well as site visits.

'101' workshops are conducted, as required, to assist directors' education on topics which include fundamentals of general insurance, reinsurance and investment management. Directors have unfettered access to senior executives and the external auditor and are encouraged to meet with these executives to further their knowledge and understanding of the organisation.

Executive directors appointed to subsidiary and associated company boards are required to undertake director training and to demonstrate that they have undertaken ongoing development and training to continue to effectively and competently perform their roles as executive directors. During the past year, 21 executives and selected senior executives completed a three day 'Foundations of Directors' course conducted in-house by the Australian Institute of Company Directors.

D. TENURE

It is expected that directors will continue as directors only for so long as they have the confidence of their fellow board members and the confidence of the Company's shareholders.

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

NON-EXECUTIVE INDEPENDENT DIRECTORS	TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT)
James Strong (Chairman)	8 years
Yasmin Allen	4 years and 9 months
Phillip Colebatch	2 years and 7 months
Hugh Fletcher	1 year and 11 months
Anna Hynes	1 year and 11 months
Brian Schwartz	4 years and 7 months
Phillip Twyman	1 year and 1 month

E. APPOINTMENT TERMS

Formal appointment letters have been issued to each non-executive director, including the chairman, to assist individual directors in understanding the role of the board and the corporate governance principles adopted by the board. The letters formally document the basis of each director's appointment, including the standard term of their appointments.

The appointment letters also provide for:

- the right of non-executive directors to, upon providing prior notice to the chairman, obtain independent professional financial and legal advice, at the Company's expense, to assist with discharging their duties efficiently;
- the measures used, and the processes to be applied, by the board to assess the individual performance of directors, details of which are set out in section F below; and
- the expectation that directors will abide by the Code of Ethics and comply with the Continuous Disclosure and Security Trading Policies.

F. MEASURING THE PERFORMANCE OF DIRECTORS

The Nomination, Remuneration & Sustainability Committee (NRSC) conducts a formal review of the board's performance, composition and size at least every three years. A formal review of board performance and succession was conducted in June – July 2009, with assistance and input from an independent board performance expert. The review process involves the completion of questionnaires by directors and Group executives, the collation of results and discussion with individual directors and the board as a whole led by the chairman.

Each director's performance is subject to evaluation by the chairman annually, by discussion between the chairman and the director. Individual directors also evaluate the chairman's performance annually.

Measures of a director's performance will include:

- contribution of the director to board teamwork;
- contribution to debates on significant issues and proposals;

- advice and assistance given to management;
- input regarding regulatory, industry and social developments surrounding the business; and
- in the case of the chairman's performance, the fulfilment of his or her additional role as chairman.

G. BOARD OPERATIONS

The board meets formally at least eight times during the year. Scheduled board meetings are planned to be held interstate and in NZ annually. Directors were also involved in a number of additional board meetings for specific purposes.

The board meets each April with the Group's executive team to review the Company's strategic plan and to set the Company's overall strategic direction.

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

The board and its committees have unfettered access to Group executives, senior management and advisers.

Directors' attendance at board and committee meetings held during the year is shown at page 14 in the directors' report.

As part of the operation of both the board and standing board committees, directors set aside time in meetings from time to time to meet without the CEO and/or management representatives present. The board usually also meets with the CEO (without other executive management present) at the commencement of each scheduled board meeting.

Senior management representatives frequently attend board meetings at the board's invitation. Directors receive agendas, board papers and minutes in advance of meetings in hard or soft copy.

ITEM 3. COMPANY SECRETARY

The company secretary is responsible to the board for ensuring board procedures are complied with and also provides advice and counsel to the board in relation to the Company's constitution, corporate governance and other matters.

The qualifications and experience of IAG's company secretary is set out at page 13.

ITEM 4. STANDING COMMITTEES

The Company has two standing board committees, the Audit, Risk Management & Compliance Committee (ARMCC) and the NRSC, each with charters and established operating procedures. Copies of the committee charters, each of which was updated during the past year, are available at the Group's website at www.iag.com.au/about/governance.

In 2008 the board decided to combine the Audit Committee and the Risk Management & Compliance Committee (RMCC) to remove duplication of oversight, particularly in relation to risk and internal audit and to improve efficiency of oversight and governance. The new committee, the ARMCC, discharges the key roles and responsibilities of the prior separate Audit Committee and RMCC in relation to the oversight of financial reporting, risk and compliance.

A. COMMITTEE PROCESSES

All standing board committees are required to have at least three members and currently comprise only independent non-executive directors. Each committee meets at least four times each year.

The CEO, Group executives and senior management are invited to meetings as required. All directors have access to committee papers and may attend any committee meeting.

The chairs of the committees give oral reports on outcomes at the board meeting immediately following each committee meeting and copies of all committee minutes are made available to the full board.

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

B. NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE (NRSC)

The four members of the NRSC are currently Brian Schwartz (chair), Yasmin Allen, Phillip Colebatch and James Strong.

The role of this committee is to:

- provide advice and support to the board in fulfilling its responsibilities to shareholders to ensure that the board is comprised of persons who have the necessary range of skills, expertise and experience to enable it to discharge its responsibilities effectively;
- provide advice and support to the board in the performance, composition and size of the board;
- oversee corporate governance, board performance and composition of IAG subsidiary and associated companies;
- provide assurance to the board relating to the effectiveness, integrity, and compliance with IAG's remuneration policies and practices;
- monitor the appropriateness and relevance of the overall remuneration policy and approach to deliver the strategic goals of IAG; and
- monitor how issues of corporate reputation, social responsibility, and IAG's commitments around safety, the environment, and the community are appropriately considered in the context of IAG's view of its corporate purpose and strategy and the importance of corporate reputation to the delivery of sustainable value for shareholders.

The NRSC charter, which lists the committee's responsibilities, can be found at www.iag.com.au/about/governance.

In May 2009 the Australian Prudential Regulation Authority (APRA) announced proposed extensions to APRA's prudential standards for general insurers to remuneration. The extension of prudential regulation to remuneration has been made in response to the global financial crisis and seeks to align remuneration with prudent risk taking. Following an initial examination of APRA draft proposals, IAG anticipates some, but not significant, adjustment to its existing remuneration governance practices to ensure compliance with the new draft prudential regulations, which are scheduled to commence on 1 January 2010.

C. AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE (ARMCC)

The four members of the ARMCC are currently Yasmin Allen (chair), Hugh Fletcher, Anna Hynes and Philip Twyman.

The majority of members of this committee have financial management experience and the main role of this committee is to assist the board in discharging its responsibilities in relation to ensuring:

- the integrity of IAG and subsidiary external and internal financial reporting, including compliance with applicable laws, regulations, and other requirements in relation to external financial reporting;
- that directors and management are provided with high quality financial and non financial information that can be relied upon by them to make informed judgments;
- that appropriate and effective systems of internal, accounting and financial controls are in place and maintained to safeguard IAG's financial and physical resources;
- that sound risk management and compliance frameworks are in place to identify, assess and manage risks within the Group's risk appetite determined by the board; and
- that the independence of the external auditor, the internal auditor, and the Group actuary is safeguarded.

The ARMCC charter, which provides details of the committee's responsibilities, can be found at www.iag.com.au/about/governance.

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

ITEM 5. PROMOTING ETHICAL AND RESPONSIBLE DECISION MAKING

The Group takes ethical and responsible decision making very seriously. It expects its employees and directors to do the same, as they are all accountable for ensuring that their behaviours, decisions and choices are:

- in accordance with all laws and regulations of the countries in which IAG operates; and
- consistent with IAG's ethical principles as set out in IAG's Code of Ethics and the IAG policies and standards that relate directly to their duties.

The IAG Code of Ethics, *The Way We Choose to do Business*, is available at the Group's website www.iag.com.au/about/ethics.

A. IAG CODE OF ETHICS

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

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

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

Copies of the Codes of Conduct for Australia and New Zealand are available at the Group's website www.iag.com.au/about/governance.

B. WHISTLEBLOWING

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

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

C. CONTINUOUS DISCLOSURE POLICY AND SECURITY TRADING POLICY

The Group's Continuous Disclosure Policy and Security Trading Policy reinforce its commitment to continuous disclosure, as well as the responsibility of all employees regarding inside information and insider trading.

The Continuous Disclosure Policy includes a protocol outlining how information is released to the public and provides examples of what could constitute inside information.

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

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

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

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

Copies of the Group's Security Trading Policy and Continuous Disclosure Policy are available at www.iag.com.au/about/governance.

Directors and management are encouraged to assist in the process of the board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act 2001 and the ASX Listing Rules in relation to continuous disclosure so as to keep markets fully informed.

ITEM 6. SHAREHOLDERS

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

In accordance with its Continuous Disclosure Policy, IAG is committed to ensuring all investors have access to information on IAG's financial performance. IAG posts on its website all investor and media material released to the ASX, including:

- annual and interim reports;
- investor and media releases and presentations of half-year and full-year results;
- investor and media releases and presentations to the annual general meeting (AGM);
- notices of general meetings and explanatory material;
- webcasts of CEO and CFO presentations at half-year and full-year results announcements;
- the Chairman's and CEO's addresses to the AGM;
- investor and media releases and presentations regarding divestments and acquisitions;
- investor and media presentations given at investor strategy sessions and other one-off events; and
- all other information released to the market.

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

Approximately 118,000 ordinary shareholders, representing approximately 13% of total shareholders have registered their email address, an increase of approximately 91% in the last 12 months following targeted approaches to shareholders. Shareholders who use this service will be advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available to be accessed electronically.

The Company also has an email system to alert investors and other interested parties who may not be shareholders who register for this service when important media releases, financial announcements, presentations and annual reports are released to the market through the ASX by the Company.

Media coverage of key events is also sought as a means of delivering information to shareholders, investors and the market. Formal communication with shareholders and investors is also conducted via the annual and interim reports, annual review and at the AGM.

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

Online proxy and direct voting are available to IAG shareholders and help to facilitate ease and timeliness of lodgement by shareholders of their votes on resolutions put to general meetings of shareholders. The introduction of direct voting for the 2008 AGM helped to contribute to a 32% increase in the number of shareholders voting on resolutions at this meeting.

Shareholders are encouraged to attend general meetings and ask questions of the chairman and the board.

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

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

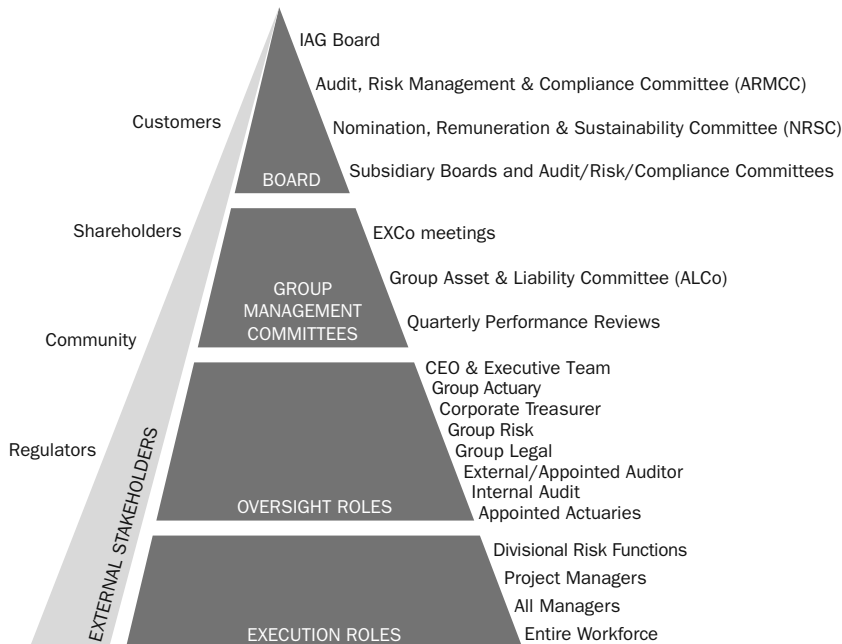
ITEM 7. RISK MANAGEMENT

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

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

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

INTERNATIONAL RISK MANAGEMENT FRAMEWORK



A. OVERSIGHT STRUCTURE

Roles and responsibilities of the ARMCC are set out at item 4.

The Executive Committee (EXCo) fulfils an advisory role to the Group CEO and provides the operational oversight of the Group's risks and risk management framework. EXCo comprises Michael Wilkins (chair) and his Group executive team.

All Group executives are responsible for:

- overseeing implementation of board-approved policies;
- overseeing the ongoing implementation of, and compliance with, the Group's Risk Management Strategy (RMS) and Reinsurance Management Statement (REMS) and monitoring the Group's risks;
- authorising capital allocation to major projects within financial delegation limits approved by the CEO/board;
- conducting periodic financial performance reviews of the business division;
- reviewing the performance in the areas of health, safety, environment and community performance;
- reviewing risk governance arrangements established at the business division level;
- reviewing human resource performance and reward strategies; and
- promoting and reinforcing the Group's risk management culture.

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

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

B. INTERNAL POLICIES

The RMS is the Group's overarching risk management policy. The RMS:

- is a primary input to, and evolves with, IAG's corporate strategy;
- describes the risk management framework within the Group including risk governance processes, risk categories (as outlined in the diagram 'IAG's risk categories'), the Group's risk appetite, key accountabilities, the key risk management processes and other Group level risk management related policies;
- is a statement of minimum requirements for managing the full spectrum of risks associated with pursuing the Group's corporate intent; and
- is reviewed annually by the ARMCC before being recommended for adoption by the IAG Board.

IAG'S RISK CATEGORIES



C. KEY RISK MANAGEMENT PROCESSES

The board and management employ the following key processes to meet, as well as monitor, the requirements of the Group's RMS.

Management assurance framework

This is a set of processes (for example, a set of self assessment questions posed, at least every six months to, and answered by, management) relating to the provision of assurance on the effectiveness of risk management processes and internal controls. These processes support the CEO, CFO and board declarations on risk management, internal control and external financial reporting.

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

Underpinning this Group-level CEO/CFO assurance are assurances received from business division Group executives and other executive management attesting to the effectiveness of business division risk management and internal control processes and assurance as to substantial compliance with the Group's RMS.

The Group's risk management and internal audit functions provide regular reports to the IAG ARMCC on the operation of the Group's risk management framework, the status of key risks, details of significant audit findings, risk and compliance incidents, and risk framework changes.

Risk profiling

Each business division identifies, assesses and designs controls and related action plans for material risks to achieving strategic business objectives, and other material risks.

Risk reporting

Reporting on risk management initiatives and issues is provided to:

- EXCo, with input from each business division;
- the ARMCC; and
- regulators and industry groups, where relevant and appropriate.

In addition, the IAG ARMCC receives regular reports monitoring the status of the Group's risk exposures and enterprise risk profile, which shows trends of each of the Group material risks and their estimated monetary impact on the Group. In addition, business division Group executives are required to attend and report to the ARMCC on the effectiveness of the risk management frameworks embedded in their respective business divisions.

Internal audit

Internal independent reviews of key risk areas, processes, and projects are undertaken by the internal audit function. The head of this function reports to the Group executive, corporate office and the ARMCC.

Independent auditor's reviews

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

ITEM 8. REMUNERATION FRAMEWORK

Details of the Group's remuneration policies for its non-executive directors and executives, the relationship of these policies to IAG's performance and details of the remuneration paid to the non-executive directors and to relevant executives are disclosed in the remuneration report on pages 18 to 34.

PERFORMANCE ASSESSMENT—EXECUTIVES

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

Performance evaluations for senior executives took place during the past year in accordance with the above process.

Further detail on short and long term incentives of the CEO and executives are set out in the remuneration report on pages 21 to 24.

ITEM 9. RESPONDING TO OUR STAKEHOLDERS

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

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

The Group reports annually on its social, economic and environmental performance against a series of indicators. The quantitative results of our business sustainability performance are incorporated into the annual review. These quantitative results, together with qualitative information and discussion of material issues of interest to our stakeholders can also be found at the IAG website, www.iag.com.au. This approach to reporting of our business sustainability performance demonstrates the ongoing commitment to ensuring business sustainability issues are considered as part of IAG's overall performance.

Ongoing stakeholder dialogue is a key element that drives the Group's business sustainability-based initiatives and it is embedded not only within our corporate strategy but also in our governance frameworks. IAG continues to undertake extensive stakeholder dialogue on key issues and activities in the business. IAG conducts research of stakeholder perceptions of the Group's business sustainability work and regularly tests the extent to which stakeholders believe that IAG is successfully addressing relevant social and environmental issues.

The Group's Expert Community Advisory Committee, established in 2006, advised Group executives for the first half of financial year 2009 on economic, social, environmental and cultural issues that may impact the Group. This committee has since been superseded and is being replaced with a bi-annual discussion forum aligned to the five pillars of IAG's business sustainability strategy; economic, customer, community, workforce and environment. These forums will complement our existing stakeholder engagement mechanisms both at the corporate and business division levels.

Sustainable outcomes and behaviours continue to be encouraged through several customer offerings. IAG's major operating brands of NRMA Insurance, SGIO and SGIC, offer lower motor insurance premiums for highly fuel-efficient vehicles, plus offer opportunities for customers to offset the carbon emissions from their vehicles via the Climate Help website (available at www.climatehelp.com.au). And our CGU brand offers business insurance policyholders assistance to ensure that their businesses are insured sufficiently through their Right Cover service.

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