



Addendum to
Notice of Meeting 2020
Insurance Australia Group Limited

ABN 60 090 739 923

10.00am on Friday, 23 October 2020

Dear shareholder

This is an Addendum to the 2020 Notice of Meeting released by Insurance Australia Group Limited (**IAG** or **the Company**) on 10 September 2020 (**Original Notice**).



There is no change to the date or time of IAG's 2020 Annual General Meeting (**AGM**) – it will still be held virtually on Friday 23 October 2020 starting at 10.00am (Sydney time) for all shareholders through the online AGM platform at <https://web.lumiagm.com>. The details for how to participate, including voting, appointing a proxy and asking questions prior to the AGM remain as set out in the Original Notice, which can be accessed at <https://www.iag.com.au/shareholder-centre/annual-meetings>.

On 21 September 2020, IAG announced that Mr Nicholas (Nick) Hawkins will be appointed as IAG's Managing Director and Chief Executive Officer (**CEO**) effective 2 November 2020. In the interests of good governance, shareholder approval is being sought through a new Resolution 11 for the portion of Mr Hawkins' FY21 long term incentive award that relates to his service as CEO (**LTI Award**). The Directors recommend that you vote **IN FAVOUR** of Resolution 11.

As Resolution 11 relates to remuneration of the incoming CEO, it will be considered at the AGM immediately after Resolution 1 (Adoption of the Remuneration Report).

In relation to the resolutions set out in the Original Notice, it continues to be the case that:

- **Resolutions 1 to 7:** The Board recommends that you vote **IN FAVOUR** of these resolutions; and
- **Resolutions 8 to 10:** The Board does **NOT** consider these resolutions to be in the best interests of IAG and recommends that you vote **AGAINST** these resolutions for the reasons set out in the Original Notice.

To submit a direct vote or proxy vote for Resolution 11, please follow the instructions on pages 6-7 of the Original Notice and the AGM Access Notice sent to you by post or email. Alternatively, to receive a new Voting Form, which will include Resolution 11, call Computershare on 1300 360 688 (inside Australia) or +61 (0) 3 9415 4210 (outside Australia).

Please note that if you have already submitted a direct or proxy vote for Resolutions 1-10 as set out in the Original Notice and you do not submit a direct or proxy vote for Resolution 11, your original direct or proxy vote will continue to be valid for the AGM and you will be taken not to have cast a vote on Resolution 11.

Thank you for your continued support of IAG. I look forward to welcoming you to our virtual AGM.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Elizabeth Bryan'.

Elizabeth Bryan AM
Chairman

Ordinary business

Addendum to Notice of Meeting – Additional Resolution

The numbering of the resolution in this Addendum is a continuation of the numbering used in IAG's original 2020 Notice of Annual General Meeting released on 10 September 2020.

Ordinary business

Resolution 11

Allocation of share rights to Mr Nicholas Hawkins

To consider, and if thought fit, pass the following resolution as an **ordinary** resolution:

'That approval is given to allocate Mr Nicholas Hawkins Executive Performance Rights (**EPRs**) in accordance with the terms of the LTI Plan and as described in the explanatory notes.'

Dated in Sydney on 28 September 2020.

By order of the Board.



Jane Bowd
Group Company Secretary

Explanatory Notes to Resolution 11

Resolution 11 – Allocation of share rights to Mr Nicholas Hawkins

It is proposed that Mr Nicholas Hawkins, IAG's incoming CEO, be granted securities as his FY21 LTI Award. Mr Hawkins will commence as CEO on 2 November 2020. Shareholders are asked to approve the grant of 270,600 Executive Performance Rights (**EPRs**) to Mr Hawkins under IAG's long term incentive (**LTI**) plan for FY21 to strengthen the alignment between Mr Hawkins' interests and those of shareholders. This grant of EPRs is the portion of Mr Hawkins' FY21 long term incentive award that relates to his service as CEO.

Why is shareholder approval being sought?

Under the ASX Listing Rules, shareholder approval is required for the issue of equity securities to Directors. Although Mr Hawkins will be a Director when the EPRs are issued, shareholder approval is not required for the issue of equity securities under an employee incentive scheme where the underlying shares to satisfy the vesting of those securities are required by the terms of the scheme to be purchased on market. Any shares allocated to Mr Hawkins on vesting and exercise of his EPRs must be acquired on market, so shareholder approval is not required under the ASX Listing Rules. However, we are voluntarily seeking shareholder approval as a matter of good governance.

If shareholder approval is not obtained for the LTI Award, the Board may consider alternative arrangements to appropriately remunerate and incentivise Mr Hawkins in his role as CEO.

Background

As announced to the market on 21 September 2020, Mr Hawkins' remuneration as CEO includes:

- fixed pay (base salary plus superannuation) – \$1,600,000 per annum;
- a short term incentive (**STI**) opportunity – 150% of fixed pay:
 - 50% payable in cash;
 - 50% deferred in the form of deferred award rights (**DARs**) which vest in tranches over a period of two years; and
- an LTI opportunity provided in the form of EPRs – 150% of fixed pay.*

* This LTI opportunity will be pro-rated on a monthly basis to reflect the portion of FY21 for which Mr Hawkins will serve as CEO (i.e. 2 November 2020 to 30 June 2021). Mr Hawkins will receive a separate pro-rated LTI award based on his LTI opportunity for the period during which he served as Deputy CEO (i.e. 1 July 2020 to 1 November 2020) being 94,700 EPRs.

The cash STI, DARs and EPRs are 'at risk'. EPRs only vest if the applicable performance hurdles are met and are subject to adjustment at the discretion of the Board.

At the time that the FY21 LTI Awards will be granted, Mr Hawkins will be the only Executive Director of the Company and therefore will be the only Director eligible to participate in the LTI plan. IAG's current CEO, Mr Peter Harmer, whose retirement as CEO was announced in April 2020, will not receive an FY21 LTI award given that he will be ceasing employment with IAG on 1 November 2020.

An overview of the LTI plan is provided below and further details of the plan (including information in relation to performance hurdles) can be found at www.iag.com.au/shareholder-centre/annual-meetings.

Proposed LTI arrangements – EPRs

Mr Hawkins is provided an LTI Award in the form of EPRs. The LTI Award is subject to performance hurdles that must be met before EPRs vest and become exercisable. These hurdles create a direct link between the remuneration paid to executives and the achievement of IAG's strategic financial objectives. In the Board's view, this supports IAG's economic sustainability and is in the long-term interests of shareholders.

The Board retains an overriding discretion to adjust vesting outcomes by determining that all or a portion of unexercised EPRs will lapse, including in light of considerations relating to financial soundness, business performance and unforeseen consequences.

Each EPR is a right to acquire an ordinary share in the Company (or a cash amount equivalent to the value of an ordinary share in the Company, as determined by the Board). EPRs will be granted at no cost to Mr Hawkins. EPRs will only vest and become exercisable (at no cost) if the performance hurdles are met. Performance hurdles are measured over a four-year period from 1 July 2020 – 30 June 2024.

The performance hurdles relevant to the LTI Award are:

- Total Shareholder Return (**TSR**) of IAG relative to a peer group of companies. This hurdle will apply to 50% of the EPRs; and
- Cash Return on Equity (**Cash ROE**) measured relative to IAG's weighted average cost of capital (**WACC**). This hurdle will apply to 50% of the EPRs.

Each of these performance hurdles is discussed in further detail below.

Explanatory Notes to Resolution 11

(a) Total Shareholder Return Performance Hurdle

TSR is measured against that of the top 50 industrial companies within the S&P/ASX 100 Index. Industrial companies are defined by Standard & Poor's as being all companies excluding those defined as being in the Energy sector (GICS Tier 1) and the Metals & Mining industry (GICS Tier 3). Companies which are no longer part of the index at the end of the performance period (e.g. due to acquisition or delisting) may be removed from the peer group.

The proportion of EPRs in the TSR component of the FY21 LTI Award that may vest is determined in accordance with the following table (subject to the discretion of the Board):

IAG TSR Ranking Relative to peer group (for 50% of the LTI Award)	Percentage of EPRs in the TSR component of the LTI Award to vest
Less than 50th percentile of peer group	0%
50th percentile of peer group	50%
Between the 50th and the 75th percentile	Pro rata vesting on a straight line basis between 50% and 100%
75th percentile of peer group or greater	100%

(b) Cash Return on Equity Performance Hurdle

Cash ROE is measured relative to IAG's WACC. The proportion of EPRs in the Cash ROE component of the FY21 LTI Award that may vest is determined in accordance with the following table (subject to the discretion of the Board):

Cash ROE Relative to WACC (for 50% of the LTI Award)	Percentage of EPRs in the Cash ROE component of the LTI Award to vest
Cash ROE < 1.4 times WACC	0%
Cash ROE = 1.4 times WACC	20%
Cash ROE is between 1.4 times WACC and 1.9 times WACC	Pro rata vesting on a straight line basis between 20% and 100%
Cash ROE is ≥ 1.9 times WACC	100%

How many EPRs will be granted to Mr Hawkins?

The Board has determined that Mr Hawkins will be granted a maximum of 270,600 EPRs as his LTI Award for FY21. This is a pro-rata portion of Mr Hawkins' LTI opportunity as CEO, representing the portion of FY21 for which he will serve as CEO.

That number was calculated using the following formula:

$$E = P \times (1.50 \times F) / S$$

Where:

P = the proportion of the FY21 financial year, determined on a monthly basis, that Mr Hawkins will serve as CEO;

1.50 = the proportion of fixed pay that is constituted by the LTI award, being 150%;

E = the number of EPRs to be offered rounded up to the nearest 100;

F = the dollar value of Mr Hawkins' fixed pay at the time of grant (being \$1,600,000); and

S = the volume weighted average share price of IAG shares over the period of 30 calendar days to 30 June 2020 being \$5.914228.

On the basis of this formula, the dollar value of the 270,600 EPRs is \$1,600,390.

If Resolution 11 is approved, the EPRs will be granted to Mr Hawkins as soon as practicable on or after 2 November 2020 but, in any event, within 12 months of the Meeting. The Board retains the discretion to adjust any unvested EPRs downwards if it decides it is prudent to do so.

Cessation of employment

If Mr Hawkins ceases employment with the Company due to retirement, redundancy, death, or total and permanent disablement or with the approval of the Board, he will retain his EPRs which will continue to be subject to the same performance hurdles, unless the Board determines otherwise.

If Mr Hawkins ceases employment for any other reason (excluding serious misconduct), his unvested EPRs lapse on the date that his employment ceases, unless the Board exercises its discretion and allows Mr Hawkins to retain his EPRs. Where the Board exercises that discretion, Mr Hawkins' EPRs will continue to be subject to the same performance hurdles.

In the event that Mr Hawkins' employment is terminated in circumstances of serious misconduct, his EPRs will lapse on cessation of employment irrespective of whether they have become exercisable.

Other discretions

The Board also has additional discretions in relation to the EPRs and rules of the LTI plan. For example:

- The Board may suspend or delay the date on which EPRs become exercisable for a particular holder of EPRs including in circumstances where the Board has determined that it requires a further period of time to determine whether the holder's EPRs should be subject to adjustment in accordance with the LTI plan.
- If there a change of control event, such as a takeover or scheme of arrangement, the Board has sole and absolute discretion to determine how EPRs may be dealt with, including whether all or some of the outstanding EPRs on issue will vest or lapse.
- EPRs are subject to the Board's powers to make adjustments to the award of EPRs as set out in the rules of the LTI plan.
- Mr Hawkins' entitlement to shares on exercise of EPRs may also be adjusted to take account of capital reconstructions and bonus issues.
- The Board retains an overriding discretion to adjust vesting outcomes by determining that all or a portion of unexercised EPRs will lapse, including in light of considerations relating to financial soundness, business performance and unforeseen consequences.

Additional information

- A total of 1,597,700 EPRs have been granted to Mr Hawkins under the Series 6 Executive Performance Rights Plan in prior years (commencing from 2013) of which:
 - 753,594 have vested and been exercised;
 - 165,693 have lapsed as a result of performance conditions not being met;
 - 663,515 are unvested and remain on foot; and
 - 14,898 were consolidated as part of the Capital Management Initiative in November 2018.
- These awards were granted to Mr Hawkins under long term incentive arrangements for no cost.
- IAG grants the LTI Award in EPRs because they align the interests of Mr Hawkins and shareholders but do not provide Mr Hawkins with the full benefits of share ownership (such as dividend and voting rights) unless the EPRs vest and are exercised.
- No loan has been, or is intended to be, given by the Company to Mr Hawkins in relation to the proposed grant of EPRs.

Voting exclusion statement

The Company will disregard any votes cast on Resolution 11:

- in favour of Resolution 11 by Mr Hawkins, Mr Harmer or any of their associates, regardless of the capacity in which the vote is cast; or
- as a proxy by a person who is a member of key management personnel (**KMP**) at the date of the Meeting (and their closely related parties),

unless the vote is cast on Resolution 11:

- as a proxy or attorney for a person entitled to vote on Resolution 11 in accordance with a direction given to the proxy or attorney to vote on Resolution 11 in that way; or
- by the Chairman of the Meeting as a proxy for a person entitled to vote on Resolution 11 in accordance with an express authorisation on the Voting Form to vote undirected proxies as they see fit even though Resolution 11 is connected with the remuneration of KMP; or
- by a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Resolution 11; and
 - the holder votes on Resolution 11 in accordance with directions given by the beneficiary to the holder to vote in that way.

Board recommendation

The Directors recommend that you vote in favour of Resolution 11. The Chairman of the Meeting intends to vote all available proxies in favour of Resolution 11.



Shareholder information

Share Registry

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Level 3, 60 Carrington Street
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Online information

To view other information about IAG and to manage your shareholding online, visit www.iag.com.au. You can also register to receive email news alerts when IAG makes important announcements.