



Executive Performance Rights

Details of the Executive Performance Rights Plan

IAG provides a Long Term Incentive in the form of Executive Performance Rights. The Executive Performance Rights Plan (EPRs Plan) is designed to link reward to IAG's longer-term performance, and also to the returns shareholders receive.

The following document presents supplementary information about the EPRs plan alongside the summary provided in the Notice of Meeting to the Annual General Meeting.

What is an Executive Performance Right?

An EPR is a right to acquire one ordinary share in IAG or to receive an equivalent cash payment. A right may be exercised if the right has become exercisable and has not lapsed. Typically EPRs are settled with an ordinary IAG share. The Board, however, may at its discretion determine that the holder will receive a cash payment equivalent in value to an IAG share on the date the right became exercisable.

Until a holder exercises their rights and acquires shares, an EPR will not give the holder a legal or beneficial interest in any IAG shares and they will not be able to participate in dividends or other shareholder benefits (including voting). An executive is not required to pay anything to acquire an EPR.

Who can participate in the EPRs Plan?

Executives and a small number of other key leaders who are nominated by direct reports to the Chief Executive Officer IAG, and approved by the Chief Executive Officer IAG, to participate in the EPRs Plan. Participants have been selected in light of the pivotal role they will play in achieving the longer-term business goals of the Group. The People and Remuneration Committee (PARC) approves the participation of each individual in the EPRs Plan.

Additional Detail of the Executive Performance Rights plan

- 1 Entitlement
 - 1.1 Each Executive Performance Right is a right of a Holder, subject to the terms outlined in the Trust Deed, to be allocated one Executive Performance Share by the Trustee which will be held by the Trustee for the benefit of the Holder on the terms of the Trust Deed until transferred to the Holder, or sold by the Trustee, or to be paid the Cash Value of an Executive Performance Share.
 - 1.2 When the Executive Performance Rights held by a Holder become Exercisable Rights, the Holder may exercise the Exercisable Rights subject to the terms outlined in the Trust Deed.
 - 1.3 Subject to term 1.4, the Board has absolute discretion to determine whether the exercise of an Exercisable Right (which has not lapsed) will be satisfied by either:
 - (a) the allocation of an Executive Performance Share to the Holder in accordance with term 5.3; or
 - (b) payment to the Holder of the Cash Value of an Executive Performance Share in accordance with term 1.6.

- 1.4 The Board may determine that the exercise of an Exercisable Right will only be satisfied by an allocation of Executive Performance Shares.
- 1.5 Executive Performance Shares allocated to the Holder by the Trustee on the exercise of Exercisable Rights in accordance with term 1.3(a) and subsequently transferred to the Holder or sold by the Trustee will rank pari passu with all existing Shares from the date of allocation and will be entitled in full to those dividends which have a record date for determining entitlements after the date of allocation of the Executive Performance Shares to the Holder.
- 1.6 Where the Board exercises its discretion to satisfy an Exercisable Right with a cash payment in accordance with term 1.3(b), IAGL must, subject to the terms outlined in the Trust Deed, pay to the Holder an amount (in any currency determined by the Board in its absolute discretion) equivalent to the Cash Value of an Executive Performance Share.
- 1.7 A Holder has no legal or equitable interest in a Share by virtue of acquiring an Executive Performance Right. The Holder's rights are purely personal and contractual.

Performance Hurdles

- 2 The performance hurdles attached to the EPRs are based on:
 - (a) Relative TSR of IAGL against Top 50 Industrials within the S&P/ ASX 100 Index; and
 - (b) ROE achieved relative to IAGL's WACC.
- 3 Specifically, 50% of the EPRs are subject to a relative TSR hurdle, and 50% are subject to satisfaction of a ROE hurdle, as described below.

Relative Total Shareholder Return Performance Hurdle

- 4 50% of the EPRs under this Grant ("TSR Allocation") may be exercised subject to satisfaction of a performance hurdle based on IAGL's TSR against the TSR of the Peer Group ("Relative TSR"), which is tested over a four year Performance Period.
- 5 This Relative TSR performance hurdle operates so that if on the TSR Test Date IAGL's Relative TSR is:
 - (a) ranked at or above the 75th percentile of the Peer Group, then all of the TSR Allocation vests;
 - (b) at the 50th percentile of the Peer Group, then 50% of the TSR Allocation vests and the unvested portion of the TSR Allocation will lapse;
 - (c) between the 51st and 74th percentile of the Peer Group, the number of EPRs determined in accordance with clause 6(b) above will vest along with an additional number determined on a straight line sliding scale, depending on IAGL's Relative TSR percentile rank. The unvested portion of the TSR Allocation will lapse; and
 - (d) ranked below the 50th percentile of the Peer Group, then none of the TSR Allocation vests and it will lapse.

The table below sets out the proportion of the TSR Allocation which will vest depending on the Relative TSR achieved by IAGL:

IAGL's Relative TSR	Percentage of TSR Allocation which vests
At or above the 75th percentile of the Peer Group	100
At the 50th percentile of the Peer Group	50
Between the 51st and 74th percentile of the Peer Group	Between 52 and 98 determined on a straight line sliding scale
Below the 50th percentile of the Peer Group	0

- 6 There will only be one TSR Test Date for the TSR performance hurdle, which will be 4 years from the Base Date (or any other day determined by the Board).
- 7 For the purposes of the TSR Allocation:
- (i) **"Base Date"** means 30 June 2018.
 - (ii) **"Performance Period"** is the period from the day after the Base Date to the TSR Test Date.
 - (iii) **"Market Value"** means, for a company (including IAGL):
 - (a) On the Base Date, the volume weighted average price at which shares were traded on ASX in the 3 month period preceding and including the Base Date; and
 - (b) On the TSR Test Date, the volume weighted average price at which shares were traded on ASX in the 3 month period preceding and including the TSR Test Date.
 - (iv) **"Peer Group"** means the Top 50 Industrials within the S&P/ASX 100 index (as determined by Standard & Poor's) as at the Base Date with such inclusions and exclusions as may be determined by the Board from time to time.
 - (v) **"TSR Test Date"** has the meaning given to it in paragraph 7 above.
 - (vi) **"TSR"** as at the TSR Test Date of IAGL or a company in the Peer Group means the total shareholder return of the relevant company determined by reference to:
 - (a) The changes in the Market Value of a relevant share in the company from the Base Date to the TSR Test Date; and
 - (b) The value (on a basis determined by the Board from time to time) of any shareholder benefits (including dividends or any other benefits that the Board determines from time to time are to be taken into account) paid or otherwise made available generally to shareholders in the company from the Base Date to the TSR Test Date.

Return on Equity Performance Hurdle

- 8 50% of the EPRs under this Grant ("ROE Allocation") may be exercised subject to satisfaction of a performance hurdle based on IAGL's ROE (defined below) which is tested over a 4 year Performance Period.

This performance hurdle operates so that if on the ROE Test Date IAGL's ROE is:

- (a) 60% (or more) higher than WACC (as defined below), 100% of the ROE Allocation vests;
- (b) 20% more than WACC, 20% of the ROE Allocation vests and the unvested portion of the ROE Allocation will lapse;
- (c) greater than 20% but less than or equal to 60% more than WACC, the number of EPRs determined in accordance with clause 8(b) will vest, along with an additional number determined on a sliding scale, depending on the percentage by which ROE exceeds WACC. The unvested portion of the ROE Allocation will lapse. The sliding scale operates in the following way:

- (i) For each percentage point above 20%, and up to 60%, by which ROE exceeds WACC, an additional 2% of the ROE Allocation vests; and
- (d) less than 20% higher than WACC, none of the ROE Allocation vests and it will lapse.

The table below sets out the proportion of the ROE Allocation which will vest at a sample of specified levels of ROE achieved by IAGL:

Level of ROE	Percentage of ROE Allocation which vests
If ROE is more than 60% higher than WACC	100
If ROE is 50% higher than WACC	80
If ROE is 40% higher than WACC	60
If ROE is 30% higher than WACC	40
If ROE is 20% higher than WACC	20
If ROE is less than 20% higher than WACC	0

9 There will be only one ROE Test Date for the ROE performance hurdle, which will be 30 June 2022 (or such other day determined by the Board).

10 For the purposes of the ROE Allocation, and subject to the exercise of Board discretion:

- (i) “ROE” means the average Cash ROE for each six month period during the Performance Period. The first six month period will begin on 1 July 2018 and end on 31 December 2018, (inclusive). Subsequent six month periods will begin on the first day after the end of the previous six month period. Cash ROE for each six month period will be calculated using the following formula:

$$\text{Cash ROE} = \frac{\text{Cash earnings}}{\text{Average equity attributable to IAGL shareholders}}$$

where:

Average equity attributable to IAGL shareholders means average of the opening and closing shareholders’ equity attributable to ordinary shareholders of IAGL for the relevant six month period. Equity attributable to IAGL ordinary shareholders is disclosed in the Group’s consolidated financial statements – currently described as “Parent Interest”.

Cash earnings means the published consolidated net profit after tax attributable to equity holders of IAGL plus amortisation of acquired identifiable intangibles adjusted for unusual items (on a basis determined by the Board from time to time) for the relevant six month period.

- (ii) “Performance Period” is the period from 1 July 2018 to the ROE Test Date.
- (iii) “ROE Test Date” has the meaning given to it in paragraph 10 above.
- (iv) “WACC” means the weighted average cost of capital of IAGL (on a basis determined by the Board from time to time). Further detail about this calculation can be obtained from Group Human Resources.

Term

11 The Term of this Grant expires 7 years after the date on which EPRs are granted.

Exercise

12 Subject to the Trust Deed, EPRs under this Grant can be exercised once the relevant Performance Hurdle is satisfied and the Trustee gives notice that the Executive Performance Rights have become exercisable.

Cessation of Employment

Under the EPRs Terms, EPRs may be retained if the holder ceases employment due to retirement, redundancy,

death, total and permanent disablement or with the approval of the Board. In these circumstances, EPRs may vest and become exercisable if the performance hurdles are achieved.

Where the holder resigns or his employment is terminated by the Company giving notice, EPRs lapse on the date employment ceases, unless the Board exercises its discretion and allows the holder to retain EPRs that have been granted. In these circumstances, EPRs may vest and become exercisable only if the performance hurdles are achieved.

Deferred Award Rights

What is a Deferred Award Right?

IAG provides a deferred Short Term Incentive in the form of Deferred Award Rights (DARs). A DAR is a right to acquire one ordinary share in IAG from the Trustee of the Plan. The following document presents supplementary information about the DARs plan alongside the summary provided in the Notice of Meeting to the Annual General Meeting.

A DAR may be exercised in order to receive one share if the right has become exercisable and has not lapsed. Until the holder exercises their rights and acquires shares, a DAR will not give a legal or beneficial interest in any IAG shares and the holder will not be able to participate in dividends or other shareholder benefits (including voting).

Additional Detail of the Deferred Award Rights plan

1. Entitlement

1.1 Subject to term 7, each Deferred Award Right entitles the Holder to acquire, credited as fully paid, one Share at an exercise price per Share of:

_____ \$1 _____
No. of Deferred Award Rights exercised on any particular day

1.2 Subject to the Listing Rules, the Trustee must transfer Shares on exercise of a Deferred Award Right in accordance with the terms of the DARs plan.

1.3 Shares transferred on the exercise of Deferred Award Rights will rank pari passu with all existing Shares from the date of transfer and will be entitled in full to those dividends which have a record date for determining entitlements after the date of transfer of the Shares.

1.4 A Holder has no legal or equitable interest in a Share by virtue of acquiring a Deferred Award Right. The Holder's rights are purely personal and contractual.

2. Conditions under which Deferred Award Rights become exercisable

2.1 Unless a Deferred Award Right lapses in accordance with term 3.3, it becomes an Exercisable Right upon the first occurring circumstance described in Column 1 of the table set out below. The date the Exercise Period commences is the corresponding date described in Column 2 of the table.

Conditions for Exercise	Commencement of Exercise Period
(a) Subject to term 2.1(c) and (d), the expiration of the period declared by the Board in relation to each grant of Deferred Award Rights. For each grant of Deferred Award Rights, the Board may declare that the Deferred Award Rights become Exercisable Rights in tranches.	The date the Board declares in relation to the grant of Deferred Award Rights.
(b) Where the Holder ceases to be an Employee due to resignation, and Deferred Award Rights become Exercisable Rights under term 2.1(a) during the Employee's contractual notice period.	The date the Deferred Award Rights become Exercisable Rights.
(c) The Holder ceases to be an Employee in any of the following circumstances: (i) Retirement; (ii) redundancy; (iii) death;	Subject to term 2.2, the date that Deferred Award Rights become Exercisable Rights under term 2.1(a).

<p>(iv) Total and Permanent Disablement; or (v) in other circumstances approved by the Board.</p>	
<p>(d) Both of the following conditions are satisfied:</p> <p>(i) any of the following occur after the Board invites Executives, under clause 8A of the Trust Deed, to make an offer to the Trustee for Deferred Award Rights, and before the Deferred Award Rights lapse:</p> <p>(A) a Takeover Bid is made to the holders of Shares (other than as a result of an allotment or transfer approved by the Board);</p> <p>(B) a statement is lodged with ASX to the effect that a person has voting power in not less than 30% of the total number of votes attaching to voting shares in IAG (other than as a result of an allotment or transfer approved by the Board);</p> <p>(C) pursuant to an application made to the Court, the Court orders a meeting to be held in relation to a proposed compromise or arrangement for the purpose of or in connection with a scheme for the reconstruction of IAG or its amalgamation with any other companies;</p> <p>(D) IAG passes a resolution for voluntary winding up; or</p> <p>(E) an order is made for the compulsory winding up of IAG; and</p> <p>(ii) the Board determines that the Deferred Award Right is exercisable due to the occurrence of any event described in paragraph (i) and, under this term, gives a notice to the Trustee that the Deferred Award Right is an Exercisable Right and that the Exercise Period has commenced.</p>	<p>The date the Board gives the notice referred to in term 2.1(d)(ii)</p>

2.2 In the circumstances described in term 2.1(c), the Board may, in its absolute discretion, determine that the Holder ceases employment as a 'good leaver' in which case the Board may determine that:

(a) some or all of the Holder's Deferred Award Rights become Exercisable Rights on the date the Holder ceases to be an Employee; and/or

(b) some or all of the Holder's Deferred Award Rights become Exercisable Rights on the date determined under term 2.1(a); and/or

(c) some of the Holder's Deferred Award Rights lapse. Without limiting the Board's discretion, the Board may have regard to the part of the period declared by the Board in relation to each grant of Deferred Award Rights which has elapsed at the date of cessation, as well as IAG's performance and the performance of the Holder up to the date of cessation.

2.3 The Trustee must give notice to the Holder that the Deferred Award Right has become an Exercisable Right within 28 days of the date the Deferred Award Right becoming an Exercisable Right.

3. Exercise Period and lapse of Deferred Award Rights

3.1 A Deferred Award Right which is an Exercisable Right may be exercised by a Holder at any time during the Exercise Period for that Deferred Award Right. The Deferred Award Right lapses at the end of its Exercise Period as determined in accordance with term 3.2 and cannot be exercised after that time.

3.2 The Exercise Period for a Deferred Award Right commences on the relevant date determined in accordance with term 2.1 and ends on the earlier of:

(a) the date that is 7 years after the Grant Date;

(b) if the Holder ceases to be an Employee (other than due to serious misconduct), the date which is 90 days after the date on which the Deferred Award Right becomes an Exercisable Right; or

(c) the date (if any) the Deferred Award Right lapses in accordance with term 3.3.

3.3 If a circumstance described in Column 1 of the table set out below applies to the Holder of a Deferred Award Right, the Deferred Award Right lapses on the date specified in Column 2 of the table. A Deferred Award Right cannot become exercisable after it lapses.

Circumstance	Date of Lapse
(a) Where the Holder ceases to be an Employee due to resignation, to the extent the Deferred Award Right is not an Exercisable Right at cessation.	The date the Holder ceases to be an Employee.
(b) The Holder ceases to be an Employee: (i) other than in a circumstance described in term 2.1(c) and the Deferred Award Right is not an Exercisable Right at cessation; or (ii) due to serious misconduct regardless of whether the Deferred Award Right is an Exercisable Right at cessation.	The date the Holder ceases to be an Employee.
(c) The Holder ceases to be an Employee in circumstances described in term 2.1(c).	The date the Board makes a determination that some of the Deferred Award Rights lapse pursuant to term 2.2.
(d) The Holder requests by notice to the Trustee under term 8 that the Deferred Award Right lapses.	The date the Trustee receives the notice.
(e) The Board makes a determination under term 3.4(a) that the Deferred Award Right lapses.	The date the Board makes the determination.

3.4 The Board may, in respect of any Deferred Award Right held by a Holder and at any time prior to the time the Deferred Award Right is exercised, determine in its absolute discretion that:

(a) the Deferred Award Right will lapse; or

(b) that IAG will grant the Holder of the Deferred Award Right Additional Deferred Award Rights.

3.5 In determining whether to exercise its discretion in term 3.4, the Board may take into account any or all of the following considerations:

(a) (financial soundness) the financial soundness and prudential capital of the Group;

(b) (business performance) the performance of either or both of the Group or any business unit of the Group that the Holder is employed in connection with;

(c) (unforeseen consequences) significant unexpected or unintended consequences that were not foreseen at the time of grant of the relevant Deferred Award Rights; and

(d) (other circumstances) any other circumstances that the Board determines are relevant in determining whether the reward outcome for the Holder in respect of the Deferred Award Rights is appropriate.

3.6 If the Board makes a determination pursuant to term 3.4(b) to grant Additional Deferred Award Rights, the terms of the Additional Deferred Award Rights granted will have identical terms to the Deferred Award Rights in respect of which they were granted, except that, unless the Board determines otherwise, the Deferred Award Rights will be treated as having a Grant Date that is the same as the Deferred Award Rights in respect of which they were granted.

3.7 If the Board makes a determination pursuant to term 3.4(b) to grant Additional Deferred Award Rights:

(a) IAG will grant the Holder Additional Deferred Award Rights in accordance with the Board's determination;

(b) the Holder agrees to accept the grant of those Additional Deferred Award Rights; and

(c) the issue and receipt of the Additional Deferred Award Rights is effective from the time that IAG provides the Holder with written notice that the Additional Deferred Award Rights have been granted.

4. Method of exercise of Deferred Award Rights

4.1 A Deferred Award Right is exercised by the Holder lodging a notice of exercise of Deferred Award Right, together with the exercise price (if any) and any applicable reimbursement amount (contemplated under clause 3.7 of the Trust Deed) for each Share to be transferred on exercise, with the Trustee or such other person as the Board designates.

4.2 Deferred Award Rights must be exercised in multiples of 100, unless the Holder exercises all Deferred Award Rights able to be exercised at that time. The exercise of some Deferred Award Rights only does not affect the Holder's right to exercise other Deferred Award Rights at a later time.

5. No Transfers

Deferred Award Rights may not be transferred.

6. Lapse

A Holder may **request** by notice to the Trustee that some or all of the Deferred Award Rights held by that Holder lapse.

7. Interpretation

Additional Deferred Award Rights means Deferred Award Rights that are granted by IAG to a Holder pursuant to a determination made by the Board in accordance with term 3.4(b).

ASX means Australian Securities Exchange Limited.

Base Date means the date determined by the Board for the purposes of these terms.

Board means the board of directors of IAG.

Commencement Date means the Grant Date or such earlier date determined by the Board.

Corporations Act means the Corporations Act 2001 (Cth).

Employee means a person who is a full time or part-time employee of any body corporate within the Group.

Exercisable Right means a Deferred Award Right that is exercisable in accordance with these terms and has not lapsed.

Exercise Period for a Deferred Award Right is the period commencing on the date determined in accordance with term 2.1 and ending on the date determined in accordance with term 3.2.

Grant Date means the date on which the Deferred Award Rights are issued to the Holder in accordance with clause 8A.6 of the Trust Deed.

Group means IAG and each body corporate that is, from time to time, a subsidiary of IAG under Division 6 of Part 1.2 of the Corporations Act

Holder means the holder of a Deferred Award Right.

IAG means Insurance Australia Group Limited (ABN 60 090 739 923).

Listing Rules means the Listing Rules of ASX.

Retirement in relation to a Holder means retirement by the Holder from employment of any body corporate in the Group at age 55 or over provided the relevant body corporate agrees the Holder's cessation of employment constitutes retirement; otherwise the Holder's cessation of employment is deemed to be a resignation for the purpose of these terms.

Share means a fully paid ordinary share in IAG.

Takeover Bid has the meaning given in section 9 of the Corporations Act and, for the purposes of these terms, is deemed to be made when a takeover bid is publicly proposed for the purposes of section 631 of the Corporations Act.

Total and Permanent Disablement means that the Holder has, in the opinion of the Board, after considering such medical and other evidence as it sees fit, become incapacitated to such an extent as to render the Holder unlikely ever to engage in any occupation for which he or she is reasonably qualified by education, training or experience.

Trust Deed means the trust deed dated 12 February 2001 between Insurance Australia Group Limited ABN 60 090 739 923 and IAG Share Plan Nominee Pty Limited ABN 52 095 125 152, as may be amended from time to time.

Trustee means the trustee of the trust established by the Trust Deed, currently IAG Share Plan Nominee Pty Limited.