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# MEETING.

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**INSURANCE AUSTRALIA GROUP LIMITED**  
NOTICE OF MEETING 2016

ABN 60 090 739 923

# Dear Shareholder



## I am pleased to invite you to attend the 2016 Annual General Meeting (AGM or meeting) of Insurance Australia Group Limited (IAG or the Company).

The AGM will be held at the Wesley Conference Centre, 220 Pitt Street, Sydney on Friday, 21 October 2016, commencing at 10.00am. A map with directions to the venue appears on the back cover of this booklet.

The following pages contain details on the items of business for the meeting, as well as explanatory notes and voting procedures.

At this year's AGM you will have the opportunity to vote on:

- the adoption of the Remuneration Report as set out on pages 15 to 33 of the 2016 Annual Report;
- the approval of the Non-Executive Director Rights Plan and grant of share rights;
- the allocation of share rights in the form of Deferred Award Rights and Executive Performance Rights to Peter Harmer, Managing Director and Chief Executive Officer;
- the re-election of Directors, Hugh Fletcher and Philip Twyman. These Directors are retiring by rotation in accordance with the Company's Constitution (Constitution) and are offering themselves for re-election;
- a resolution to refresh IAG's capacity to issue new securities following the issue of securities in June 2016; and
- a resolution to approve potential buy-backs of IAG's Convertible Preference Shares.

If you are unable to attend the AGM in person you may vote directly or appoint a proxy to act on your behalf. You may register voting instructions electronically at [www.investorvote.com.au](http://www.investorvote.com.au) or complete and return the enclosed voting form using the pre-addressed envelope provided.

The AGM will be webcast live and may be viewed at [www.iag.com.au/shareholder-centre/annual-meetings](http://www.iag.com.au/shareholder-centre/annual-meetings). An archive of the webcast will be available on the site shortly after the AGM concludes.

A shareholder who is entitled to vote at the AGM may also submit written questions for the Company or the Company's external auditor in advance of the AGM. Questions should be about the business of the Company or the content of the 2016 Annual Report. A shareholder question form is enclosed for your convenience and this form can be returned with your voting form in the pre-addressed envelope provided. You can also submit questions online at [www.investorvote.com.au](http://www.investorvote.com.au).

Alternatively, you may lodge both your voting form and shareholder question form by fax to +61 (0)3 9473 2555 or hand deliver both forms to our share registry in Sydney at the address shown on page 4.

I look forward to seeing you at the AGM.

Yours sincerely

**Elizabeth Bryan AM**  
CHAIRMAN

# Items of business

## **Receipt of Financial Statements and Reports**

To receive and consider the Company's financial statements and reports for the financial year ended 30 June 2016.

## **Adoption of Remuneration Report**

### **Resolution 1**

To consider and, if thought fit, pass the following ordinary Resolution:

"That the Company's Remuneration Report for the financial year ended 30 June 2016 be adopted."

## **Approval of Non-Executive Director Share Rights Plan and grant of share rights**

### **Resolution 2**

To consider, and if thought fit, pass the following ordinary Resolution:

"That approval is given for all purposes for the Non-Executive Director Share Rights Plan (**NED Rights Plan**) and for the grant of share rights, and the allocation of shares in the Company on exercise of those share rights, under the NED Rights Plan to any current and future Non-Executive Directors as described in the Explanatory Notes accompanying the 2016 Notice of Meeting."

## **Allocation of Share Rights to Peter Harmer, Managing Director and Chief Executive Officer (CEO)**

### **Resolution 3**

To consider, and if thought fit, pass the following ordinary Resolution:

"That approval is given to allocate to the CEO, Peter Harmer, Deferred Award Rights (**DARs**) and Executive Performance Rights (**EPRs**) in accordance with the DAR and EPR Plan terms and as described in the Explanatory Notes accompanying the 2016 Notice of Meeting."

## **Election of Directors**

### **Resolution 4**

To consider, and if thought fit, pass the following ordinary Resolution:

"To re-elect as a Non-Executive Director Hugh Fletcher, who retires by rotation in accordance with the Constitution and, being eligible, offers himself for re-election."

### **Resolution 5**

To consider, and if thought fit, pass the following ordinary Resolution:

"To re-elect as a Non-Executive Director Philip Twyman, who retires by rotation in accordance with the Constitution and, being eligible, offers himself for re-election."

## **Refresh capacity to issue new securities**

### **Resolution 6**

To consider, and if thought fit, pass the following ordinary Resolution:

"For the purposes of Australian Securities Exchange (ASX) Listing Rule 7.4 and all other purposes, approval is given for the issue of 350,000,000 unsecured subordinated convertible notes as described in the Explanatory Notes accompanying the 2016 Notice of Meeting."

## **Selective buy-back of Convertible Preference Shares issued on 1 May 2012**

### **Resolution 7**

To consider and, if thought fit, pass the following special Resolution:

"That approval is given for the conduct and terms of one or more selective buy-backs in aggregate of up to 100% of the Convertible Preference Shares (**CPS**) issued on 1 May 2012 – ASX Code: IAGPC (CPS) at the discretion of the Directors, in accordance with the CPS Terms of Issue set out in the CPS Prospectus dated 27 March 2012 (as may be amended from time to time) or by agreement with holders of the CPS who accept an offer by the Company to acquire some or all of their CPS on terms described in the Explanatory Notes accompanying the 2016 Notice of Meeting, in each case at any time within 12 months after the date of this resolution."

## ABOUT VOTING

# How to vote

### A. Voting options

#### In person

Shareholders may vote by attending the AGM and casting their votes in person.

#### Direct

A direct vote allows shareholders to vote on Resolutions considered at the AGM by lodging their votes with the Company before the AGM, without the need to attend the AGM or appoint a proxy.

You must mark either “For”, “Against” or “Abstain” for each item of business on the voting form for a valid direct vote to be recorded on that item.

Please note that a shareholder who has cast a direct vote may attend the AGM; however, attendance and registration at the AGM will cancel that shareholder’s direct vote unless the shareholder instructs the Company or the share registry otherwise.

#### Proxy

A shareholder who is entitled to attend and cast a vote at the AGM has a right to appoint a proxy to attend and vote instead of the shareholder. The proxy need not be a shareholder of the Company and may be a corporation (and any corporation so appointed may then nominate an individual to exercise its powers at the meeting). A shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes which each proxy is appointed to exercise.

If the proxy appointments do not specify the proportion or number of the shareholder’s votes that each proxy may exercise, each proxy may exercise up to half of the shareholder’s votes.

Shareholders can direct their proxy how to vote by following the instructions on the voting form and are encouraged to do so. Shareholders appointing a proxy should also take note of the instructions under “Voting Exclusions” set out below.

If a shareholder appoints the Chairman of the meeting or another Director as proxy and does not direct the Chairman of the meeting or Director on how to vote, they will vote all available proxies in favour of each Resolution.

### Voting exclusions

Certain voting exclusions apply to Resolutions 1, 2, 3, 6 and 7; details are set out in the Explanatory Notes for the relevant Resolutions within this 2016 Notice of Meeting. Only ordinary shareholders may vote on Resolutions 1 to 6 (inclusive).

The key management personnel of the Company and their closely related parties (as defined under the Corporations Act 2001, which includes their spouses, dependants and companies that they control) (**Closely Related Parties**) will not be able to vote your proxy on Resolutions 1, 2 or 3 unless you direct them how to vote on the voting form.

If you appoint the Chairman of the meeting as your proxy or if the Chairman of the meeting is appointed as your proxy by default, and you do not mark any of the voting boxes on the voting form for Resolutions 1, 2 and 3, by signing and returning the voting form, you will be giving the Chairman of the meeting your express authority to vote your undirected proxy as she sees fit.

If you appoint as your proxy any other member of the Company’s key management personnel (including the other Directors of the Company) or any of their Closely Related Parties, you are encouraged to direct that person how to vote on Resolutions 1, 2 and 3. If you do not direct that person how to vote on these Resolutions, that person will not be entitled to vote, and will not vote, your proxy on those Resolutions.

### Default to the Chairman of the meeting

Any directed proxies that are not voted on a poll at the meeting will automatically default to the Chairman of the meeting, who is required to vote those proxies as directed.

### How to vote directly or by proxy

To be valid, voting forms, proxies or electronic voting instructions must be received by the Company’s share registry, **Computershare Investor Services Pty Limited, (Computershare) in Sydney before 10.00am (Sydney time) on Wednesday, 19 October 2016 (Voting Deadline).**

Voting forms, proxies or electronic voting instructions may be submitted:

- online at [www.investorvote.com.au](http://www.investorvote.com.au). You will need information shown on your voting form to register your vote online;
- by post in the pre-addressed envelope provided. Please allow sufficient time for the form to reach Computershare, Sydney, by the Voting Deadline;
- by facsimile to Computershare on +61 (0)3 9473 2555; or
- by hand delivery to Computershare, Level 4, 60 Carrington Street, Sydney, NSW 2000.

Intermediaries with access to Intermediary Online through Computershare should lodge their votes through [www.intermediaryonline.com](http://www.intermediaryonline.com).

### B. Corporate representatives

A corporate shareholder wishing to appoint a person to act as its representative at the AGM may do so by providing that person with:

- a letter, certificate or form authorising him or her as the corporate shareholder’s representative, executed in accordance with the corporate shareholder’s constitution; or
- a copy of the Resolution appointing the representative, certified by a secretary or director of the corporate shareholder.

A form may be obtained from the Computershare website at [www.investorcentre.com](http://www.investorcentre.com) under the information tab “Downloadable Forms”.

### C. Power of attorney

If a shareholder has appointed an attorney to attend and vote at the AGM, or if the voting form is signed by an attorney, the power of attorney (or a certified copy of the power of attorney) must be received by Computershare by the Voting Deadline, unless this document has been previously lodged with the Company’s share registry for notation.

Powers of attorney may be submitted by post or by hand delivery to Computershare at the addresses shown above.

### D. Shareholders eligible to vote

As determined by the Board of Directors of IAG (Board), only shareholders who hold ordinary shares in the Company as at 7.00pm (Sydney time) on Wednesday, 19 October 2016 will be eligible to vote at the AGM.

Dated in Sydney on 19 August 2016.

By order of the Board.



**CHRIS BERTUCH**  
GROUP GENERAL COUNSEL  
& COMPANY SECRETARY

# More information

The following Explanatory Notes explain the items of business to be considered at IAG's 2016 AGM and form part of the Notice of Meeting. The Explanatory Notes are set out in the order of the items in the Notice of Meeting and should be read with the Notice.

### Receipt of financial statements and reports

The financial results for the year ended 30 June 2016 are set out in the Company's 2016 Annual Report sent to those shareholders who elected to receive it by post or email. The Annual Report is available online at [www.iag.com.au/results-and-reports](http://www.iag.com.au/results-and-reports).

### Why are the financial reports being presented to shareholders?

It is a requirement under the Corporations Act 2001 to present at the AGM the financial report, Directors' report, and auditor's report of the Company and the consolidated entity.

Shareholders will be given a reasonable opportunity at the AGM to ask questions and make comments on the financial report and other reports and on the business operations and management of the Company.

### Questions for the auditor

During discussion of this item the Company's auditor will answer relevant questions.

If you would like to submit a written question to the Company's auditor, please write your question on the shareholder question form provided and submit it using one of the methods set out on page 4 under the section entitled "How to vote directly or by proxy". Questions may also be lodged as part of the online voting process.

Questions for the auditor (either written or at the meeting) must relate to:

- the preparation and content of the auditor's report or the conduct of the audit (including the independence of the auditor); or
- the accounting policies adopted by the Company in relation to the preparation of its financial statements.

A list of qualifying written questions received will be made available at the AGM. Please note that all written questions to the auditor must be received **no later than 5.00pm Friday, 14 October 2016**.

### Resolution 1

#### Adoption of the Remuneration Report

This Resolution is advisory only and does not bind the Company or the Directors. However, the Directors will actively consider the outcome of the vote and comments made by shareholders on the Remuneration Report at the meeting when reviewing the Company's remuneration policies.

#### Remuneration overview

The Board presents the Remuneration Report to shareholders for consideration and adoption. The Remuneration Report contains information about IAG's remuneration policy and practices. It also sets out the remuneration arrangements for key management personnel, including the Non-Executive Directors, the CEO and Group Executives.

The Remuneration Report, which is part of the 2016 Annual Report, can be found on the Company's website at [www.iag.com.au/results-and-reports](http://www.iag.com.au/results-and-reports).

IAG's remuneration practices have been designed to:

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

The 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.

Shareholders will be given the opportunity to ask questions about and to make comments on the Remuneration Report at the AGM.

### Voting exclusion statement

The Company will disregard any votes cast on Resolution 1:

- by or on behalf of a member of the key management personnel whose remuneration is disclosed in the Remuneration Report or any Closely Related Parties of those persons; or
- as a proxy by a member of the key management personnel or any of their Closely Related Parties,

unless the vote is cast by a person as a proxy entitled to vote on Resolution 1:

- in accordance with a direction as to how to vote on the voting form; or
- by the Chairman of the meeting following express authorisation on the voting form to vote as she sees fit.

If you choose to appoint as your proxy a member of the key management personnel (other than the Chairman of the meeting) or one of their Closely Related Parties, you are encouraged to direct your proxy on how to vote on Resolution 1 by marking either "For", "Against" or "Abstain" on the voting form.

Only ordinary shareholders may vote on Resolution 1.

### What do the Directors recommend?

The Directors recommend that you vote "For" the Resolution. The Chairman intends to vote available proxies given to her "For" the adoption of the Remuneration Report.

## EXPLANATORY NOTES

### Resolution 2

#### Approval of Non-Executive Director Share Rights Plan and grant of share rights

The People and Remuneration Committee (PARC) has determined that the annual remuneration paid by the Company to Non-Executive Directors (**NEDs** or the **Participants**) of the Company for their services as a director may be delivered partially in cash and partially in equity. Participation in the Non-Executive Director Share Rights Plan (**NED Rights Plan**) is voluntary. Structuring NED remuneration in this way will support NEDs in building their shareholdings in the Company and continue to enhance the alignment of interests between NEDs and shareholders generally.

The current NEDs of the Company are Elizabeth Bryan, Hugh Fletcher, Philip Twyman, Raymond Lim, Alison Deans, Thomas Pockett and Jonathan Nicholson.

There are no performance conditions attached to the NED Rights Plan, which reflects good governance practices which recommend that NEDs should not receive remuneration contingent on performance, which could act to bias decision-making and compromise objectivity.

#### Terms of the NED Rights Plan

A NED may choose to participate in the NED Rights Plan. Upon agreement to participate in this plan, the NED enters into an agreement with IAG to receive a portion of their annual base Board fee as rights. Deferred share rights (**Rights**) over shares in IAG may be granted under the NED Rights Plan to NEDs. Each Right will entitle the Participant to acquire one ordinary share in IAG subject to satisfaction of a service condition. If the NED Rights Plan is approved, a full year's allocation of Rights will be granted subsequent to the AGM.

The Board will have the discretion to determine the allocation methodology. The number of Rights offered is to be determined by the following formula:

$$A = B / C$$

Where:

A = the number of Rights to be offered;

B = a dollar value of the annual NED fee for the period 1 July – 30 June to be paid in the form of Rights; and

C = the Volume Weighted Average Price of IAG shares on the ASX over a period of five business days following at or around the relevant grant date.

The dollar value of the annual NED fee will be a portion of the total annual fee.

Participants will have no voting rights until the Rights are exercised and the Participant holds shares in IAG.

A service condition is attached to the vesting of the Rights with 1/12th of the award vesting each month in line with the payment of NED fees. As the Rights will be granted part way through a financial year, a proportion of the Rights will be immediately vested.

Participants will not have to pay any amount to exercise Rights.

Rights will expire on the date that is 15 years from the relevant grant date, or any other date determined by the Board (**Expiry Date**). Rights that are not exercised before the Expiry Date will lapse.

In the event a NED ceases service with the Board any vested Rights may be exercised for shares in IAG in the subsequent trading window. Any unvested Rights will lapse. Under certain circumstances (eg change of control), the Board also has sole and absolute discretion to deal with the Rights, including waiving any applicable vesting conditions and/or exercise conditions by giving notice or allowing a Participant affected by the relevant event to transfer their Rights.

#### Why is shareholder approval being sought?

The Company is not required to seek this approval as shares allocated under the NED Rights Plan to satisfy vested grants of NED rights will be bought on-market.

In the interests of transparency, shareholder engagement and good governance, the Company is seeking shareholder approval for equity-based allocations to NEDs.

#### Voting exclusion statement

The Company will disregard any votes cast on Resolution 2:

- by or on behalf of each NED of the Company (being the only Directors currently entitled to participate in the NED Rights Plan) and any of their associates; or
- as a proxy by a member of the key management personnel as at the date of the AGM or any of their Closely Related Parties, unless the vote is cast as proxy for a person entitled to vote on Resolution 2 in accordance with a direction on the proxy form, or by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy as she decides.

If you choose to appoint as your proxy a member of the key management personnel (other than the Chairman of the meeting) or one of their Closely Related Parties, you are encouraged to direct your proxy on how to vote on Resolution 2 by marking either "For", "Against" or "Abstain" on the voting form.

Only ordinary shareholders may vote on Resolution 2.

#### What do the Directors recommend?

Each Non-Executive Director abstains from providing a recommendation in respect of the Resolution due to their interest in the outcome of the Resolution.

The remaining Director recommends that shareholders approve the adoption of the NED Rights Plan. The Chairman intends to vote available proxies given to her "For" this Resolution.

### Resolution 3

#### Allocation of share rights to Mr Peter Harmer, CEO

Shareholder approval is being sought to grant the following to Mr Peter Harmer, the CEO of the Company:

- Deferred Award Rights (**DARs**) – under IAG's short term incentive (**STI**) plan, to reward achievement against a mix of financial and non-financial targets. DARs are the deferred portion of the STI awarded for the financial year ended 30 June 2016; and
- Executive Performance Rights (**EPRs**) – under IAG's long term incentive (**LTI**) plan, subject to performance hurdles designed to drive performance over three and four years and to strengthen the alignment between the interests of executives and shareholders. EPRs constitute Mr Harmer's proposed LTI grant for the financial year ending 30 June 2017.

#### Why is shareholder approval being sought?

The Company is not required to seek this approval as shares allocated under the Company's DAR and EPR Plans to satisfy vested grants of DARs and EPRs will continue to be bought on-market.

In the interests of transparency, shareholder engagement and good governance, the Company is seeking shareholder approval for equity-based allocations to the CEO.

## EXPLANATORY NOTES

### Background

Under Mr Harmer's employment agreement with the Company, his remuneration includes:

- Fixed Pay (base salary plus superannuation);
- STI entitlement payable in cash;
- deferred STI entitlement in the form of DARs which vest in tranches over a period of two years; and
- an LTI entitlement provided in the form of EPRs.

The cash STI, deferred STI (DARs) and LTI (EPRs) entitlements are 'at risk'. DARs are only awarded if Mr Harmer meets the targets necessary to earn an STI. Similarly, EPRs only vest if they satisfy performance hurdles. Both DARs and EPRs are designed to align Mr Harmer's interests with those of shareholders.

As a senior executive, Mr Harmer has participated in the DAR and EPR Plans since joining the Company in 2010 and, in his capacity as CEO, he continues to be eligible to participate.

No loan has been or is intended to be given by the Company to Mr Harmer in relation to proposed grants of the DARs or EPRs described in this Resolution.

Mr Harmer is the only Executive Director of the Company and therefore is the only Director eligible to participate in the incentive plans.

An overview of these plans is provided below and full details can be found at [www.iag.com.au/shareholder-centre/annual-meetings](http://www.iag.com.au/shareholder-centre/annual-meetings).

Details of any securities issued to the CEO under the incentive plans are published in the Annual Report.

### Proposed deferred STI arrangements – DARs

Consistent with current STI arrangements, the Board has set a maximum annual STI entitlement for Mr Harmer at 150% of his Fixed Pay. The actual STI payment made, if any, is determined by the Board based on achievement of a mix of financial and non-financial targets and an overall assessment of performance by the Board. For the year ended 30 June 2016, Mr Harmer's incentive opportunity has been pro-rated. 150% of Fixed Pay applied for the period between 16 November 2015 and 30 June 2016. 120% of Fixed Pay applied for the period between 1 July 2015 and 15 November 2015.

The Board has currently determined that two thirds (2/3) of any STI that is awarded will be paid as cash and the remaining one third (1/3) will be deferred for up to two years. The deferred amount is provided as a grant of DARs. Deferring a portion of STI into DARs is designed to provide a retention incentive and align Mr Harmer's interests to those of shareholders.

Each DAR is an option to acquire an ordinary IAG share. DARs are granted for nil consideration and a nominal exercise price of \$1 is payable for the exercise of each allocation of DARs.

### How many DARs will be granted to Mr Harmer?

The number of DARs will be determined based on the value of STI awarded for the previous financial year. The formula used to calculate the number of DARs is as follows:

$$D = (\text{STI} \times Z) / S$$

Where:

D = the number of DARs to be offered rounded up to the nearest 100;

STI = the dollar amount of the STI determined by the Board for the financial year ended 30 June 2016;

Z = the proportion of the STI that the Board has determined will be deferred and offered as an award of DARs (currently 1/3); and

S = the closing price of IAG shares on the last trading day of the financial year ended 30 June 2016 being \$5.45.

Subject to shareholder approval, the Board has determined that the DARs to be granted to Mr Harmer under this approval will be a maximum of 83,100.

If Resolution 3 is approved, the allocation of DARs will be granted to Mr Harmer within two months of the meeting. The Board has determined that the DARs to be granted to Mr Harmer will vest as follows:

- 50% on 1 September 2017; and
- 50% on 1 September 2018.

### Summary of the DARs Plan

Under the terms of the DARs, if Mr Harmer ceases employment due to retirement, redundancy, death, or total and permanent disablement or with the approval of the Board, the Board may determine that:

- DARs continue to become exercisable on their scheduled vesting date; and/or
- DARs become exercisable at an earlier date; and/or
- some DARs should lapse.

Where employment is terminated by the Company giving notice, the early exercise of DARs is permitted unless the Board determines, for whatever reason, that some or all of the DARs should lapse.

If Mr Harmer ceases employment due to resignation, any DARs that have not vested and become exercisable for shares lapse on the date employment ceases.

The early exercise of DARs may be permitted by the Board in other circumstances, such as a takeover or scheme of arrangement of IAG.

Mr Harmer's entitlement to shares through the exercise of DARs may be adjusted to take account of capital reconstructions and bonus issues.

The Board retains the discretion to adjust any unvested DARs downwards if it decides it is prudent to do so.

### Proposed LTI arrangements – EPRs

An LTI is provided in the form of EPRs. The performance hurdles that must be met before EPRs become exercisable create a direct link between the remuneration paid to executives and 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.

Each EPR is an option to acquire an ordinary IAG share (or cash, as determined by the Board). The proposed grant of EPRs to the CEO will be granted at no cost to Mr Harmer and may be exercised at no cost if performance hurdles are met.

Performance hurdles are measured over a three to four year period.

The performance hurdles relevant to the grant will be:

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

Further details of these performance hurdles are provided below.

### How many EPRs will be granted to Mr Harmer?

Subject to shareholder approval being obtained, the number of EPRs to be awarded to Mr Harmer in the financial year ending 30 June 2017 will be a maximum of 467,900.

The number of EPRs the Board will award has been calculated using the following formula:

$$E = (1.5 \times F) / S$$

Where:

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

F = the dollar value of Mr Harmer's Fixed Pay at the time of grant; and

S = the closing price of IAG shares on the last trading day of the financial year ended 30 June 2016 being \$5.45.

If Resolution 3 is approved, the EPRs will be granted to Mr Harmer within two months of the meeting. The Board retains the discretion to adjust any unvested EPR downwards if it decides it is prudent to do so.

## EXPLANATORY NOTES

### Performance hurdles

Each allocation of EPRs granted to Mr Harmer will vest and become exercisable for shares in the future subject to performance hurdles being achieved. The total allocation of EPRs is separated into two equal portions, with each portion having a separate performance hurdle.

### TSR performance hurdle (50% of total allocation)

The test date for the TSR performance hurdle is 30 September 2020, being the fourth anniversary of the base date of 30 September 2016. The Board may also determine other test dates.

The starting share price for measuring TSR is the three month volume weighted average price (up to and including the grant date) of IAG shares and of the shares of other companies within the peer group.

The peer group of companies is the top 50 industrial companies in the S&P/ASX 100 index at the grant date, with such inclusions and exclusions as the Board may determine.

If, on the test date, IAG's TSR is at or above the 75th percentile of the peer group, all EPRs in the TSR allocation vest. If IAG's TSR is at the 50th percentile of the peer group 50% of EPRs in the TSR allocation vest. A sliding scale applies such that 50% plus an additional 2% of EPRs in the TSR allocation vest for each percentile ranking above the 50th percentile of the peer group. No EPRs vest if IAG's TSR is below the 50th percentile of the peer group.

If the TSR performance hurdle is not met or is only partially met when measured after four years, any of the TSR allocation of EPRs that do not vest and become exercisable for shares will lapse.

### ROE performance hurdle (50% of total allocation)

The ROE performance hurdle is measured over a period of three financial years from 1 July 2016 to 30 June 2019.

The ROE performance hurdle compares IAG's Cash ROE performance with IAG's WACC. ROE is measured for each six month period and compared to WACC for that period.

The Board approves the method used to measure ROE and WACC. The average of the six half yearly measurements over the three financial years must show that ROE is at least 1.2 times WACC for any of the ROE portion of the EPRs to vest and become exercisable for shares.

The vesting scale for EPRs in the ROE allocation is outlined below:

| CASH ROE vs WACC      | VESTING SCALE |
|-----------------------|---------------|
| ROE $\geq$ 1.6 x WACC | 100% vests    |
| ROE = 1.5 x WACC      | 80% vests     |
| ROE = 1.4 x WACC      | 60% vests     |
| ROE = 1.3 x WACC      | 40% vests     |
| ROE = 1.2 x WACC      | 20% vests     |
| ROE < 1.2 x WACC      | 0% vests      |

If the ROE performance hurdle is not met or is only partially met when measured after three financial years, any of the ROE allocation of EPRs that do not vest and become exercisable for shares will lapse.

### Cessation of employment

Under the EPRs terms, EPRs may be retained if Mr Harmer ceases employment due to retirement, redundancy, death, or total and permanent disablement or with the approval of the Board. In these circumstances, EPRs may vest and become exercisable for shares if the performance hurdles are achieved in the ordinary course.

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

### Early vesting of EPRs

The early vesting (and exercise) of Mr Harmer's EPRs for shares may be permitted by the Board in circumstances such as a takeover, scheme of arrangement or winding up of IAG.

### Reconstruction and bonus issues

Mr Harmer's entitlement to shares through the exercise of EPRs may be adjusted to take account of capital reconstructions and bonus issues.

### Voting exclusion statement

As this Resolution is connected with the remuneration of a member of the key management personnel for the Company, within the meaning of the Corporations Act 2001, the Company will disregard any votes cast on Resolution 3:

- by Mr Harmer or any of his associates; or
- as a proxy by a member of the key management personnel or any of their Closely Related Parties,

unless the vote is cast as a proxy for a person entitled to vote on Resolution 3:

- in accordance with the directions on the voting form; or
- by the Chairman of the meeting following express authorisation on the voting form to vote as she sees fit.

Only ordinary shareholders may vote on Resolution 3.

### What do the Directors recommend?

The Directors (other than Peter Harmer) recommend that you vote "For" the Resolution. The Chairman intends to vote available proxies given to her "For" the Resolution.



## EXPLANATORY NOTES

# ASX Listing Rule 14.5 requires that the Company holds an election of Directors each year. The Constitution requires one third of eligible Directors to retire from office at each AGM.

### Who is standing for re-election?

Hugh Fletcher and Philip Twyman retire by rotation in accordance with the Company's Constitution and offer themselves for re-election.

#### Resolution 4



#### HUGH FLETCHER

BSc, BCom (Hons), MBA

Hugh was appointed as a Director of IAG in September 2007. He is a member of IAG's Audit Committee, Risk Committee and Nomination Committee. Hugh was formerly chairman (and independent director since December 1998) of New Zealand Insurance Limited and CGNU Australia.

#### Other business and market experience

Hugh is a non-executive director of Rubicon Limited and Vector Limited and a trustee of The University of Auckland Foundation. Hugh was formerly chief executive officer of Fletcher Challenge Limited, a New Zealand headquartered corporation with assets in the global building, energy, forestry and paper industries. He retired from an executive position in December 1997 after 28 years as an executive, 11 of which he served as chief executive.

Hugh is a former deputy chairman of the Reserve Bank of New Zealand, former member of the Asia Pacific Advisory Committee of the New York Stock Exchange, former non-executive director of Fletcher Building Limited, and has been involved as an executive and non-executive director in many countries in Asia, including China, India, Singapore, Indonesia, Malaysia and Thailand.

Directorships of other listed companies held in past three years:

- Rubicon Limited, since 23 March 2001;
- Vector Limited, since 25 May 2007; and
- IAG Finance (New Zealand) Limited (a part of the Group), since 31 August 2008.

Only ordinary shareholders may vote on Resolution 4.

### What do the Directors recommend?

The Directors (other than Hugh Fletcher) recommend that you vote "For" the Resolution.

#### Resolution 5



#### PHILIP TWYMAN

BSc, MBA, FAICD

Philip was appointed as a Director of IAG in July 2008. He is chairman of IAG's Risk Committee and a member Audit Committee and Nomination Committee.

#### Other business and market experience

Philip was formerly group executive director of Aviva plc, one of the world's largest insurance groups, based in London. He has also been chairman of Morley Fund Management and chief financial officer of General Accident plc, Aviva plc and AMP Group. While at Aviva plc and its predecessor groups between 1996 and 2004, Philip had executive responsibility for the Group's insurance operations in Asia, Australia, Europe and North America. He has also been responsible for starting and nurturing new insurance businesses in China, India, Indonesia and Hong Kong. Overall, Philip has had over 20 years of both board and executive level general insurance experience.

Philip is on the boards of Swiss Re in Australia. He was formerly an independent non-executive director of Perpetual Limited from 2004 to 2012, Medibank Private Limited from 2007 to 2012 and Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Limited from April 2007 to July 2008. Philip is also on the board of Tokio Marine Management (Australasia) Pty Ltd.

Only ordinary shareholders may vote on Resolution 5.

### What do the Directors recommend?

The Directors (other than Philip Twyman) recommend that you vote "For" the Resolution.

#### Resolution 6

#### Refresh capacity to issue new shares

On 15 June 2016, IAG issued 350,000,000 unsecured subordinated convertible notes (Notes) that are convertible into IAG fully paid ordinary shares at the option of holders on any interest payment date from 15 June 2025 to 15 June 2043.

The issue of the Notes is part of IAG's capital management strategy. The proceeds from issuing the Notes are intended to be used for general corporate purposes.

#### Why shareholder approval is being sought

Generally, under ASX Listing Rule 7.1, a company may, in any 12 month period, issue or agree to issue without the prior approval of shareholders, new equity securities of up to 15% of the number of shares on issue 12 months before the date of the issue of the new equity securities.

ASX Listing Rule 7.4 provides that an issue by a company of securities without shareholder approval under ASX Listing Rule 7.1 is treated as having been made with approval if the issue did not breach ASX Listing Rule 7.1 when it was made and the company's shareholders subsequently approve it.

The issue of the Notes did not breach ASX Listing Rule 7.1 and has not previously been approved by shareholders.

The terms of the Notes when issued provide that the Notes may, subject to certain conditions, convert into fully paid ordinary shares in IAG, on the basis set by the terms outlined below.

The effect of passing Resolution 6 will be to refresh the Company's 15% capacity under ASX Listing Rule 7.1 so that its capacity would be the same as if the Notes had not been issued. This Resolution, if passed, will increase the Company's financial flexibility in the future.

The Board will only decide to issue further securities if it considers it is in the best interests of the Company to do so.

If Resolution 6 is not passed by shareholders, the Company would need to deduct the maximum number of ordinary shares to which the Notes would convert in calculating the number of securities the Company may issue without shareholder approval.

## EXPLANATORY NOTES

The following additional information is provided in connection with the approval sought under Resolution 6:

### (a) The number of securities issued

The total number of Notes issued was 350,000,000.

### (b) The price at which the securities were issued

NZ\$1.00 per Note, being its face value and issue price.

### (c) The terms of the securities

A term of 27 years maturing on the Maturity Date (15 June 2043) unless converted earlier as summarised below:

- Interest is payable quarterly on 15 March, June, September and December (commencing on 15 September 2016) each year at the following rates:
  - initially, and up to 15 June 2022, a fixed rate of 5.15% (being the market 6 year swap rate of 2.55% plus a margin of 2.6% per annum); and
  - for each interest period thereafter, a floating rate equal to the New Zealand 3 month bank bill rate (determined on the first business day of each interest period) plus a margin of 2.6% per annum.
- IAG has an option to defer payment of interest in certain circumstances.
- IAG may redeem all (but not some only) of the Notes between 15 June 2022 to 15 June 2023 (inclusive), and for certain tax and regulatory events (in each case subject to the Australian Prudential Regulation Authority's (APRA's) prior written approval and the satisfaction of other conditions).
- Holders of Notes may elect to convert them into ordinary shares in IAG on any interest payment date from (and including) 15 June 2025 to 15 June 2043.
- If APRA determines IAG to be non-viable, the Notes will convert into IAG ordinary shares or, if that is not possible, the Notes will be written off.
- The number of IAG ordinary shares received on conversion will be based on a volume-weighted average price (VWAP) over a certain period, less a discount of 1%. The number of IAG ordinary shares will be capped at a maximum number set by reference to the VWAP of IAG ordinary shares at the issue date (50% of that VWAP for conversion at the holder's option and 20% of that VWAP for conversion on non-viability).
- The Notes qualify as Tier 2 Capital under APRA's capital adequacy framework for general insurers.

### (d) The names of the allottees or the basis on which the allottees were determined

The Notes were issued to institutional investors and New Zealand retail investors.

### (e) The use of the funds raised

The proceeds from the issue of the Notes are intended to be used for IAG's general corporate purposes.

### Voting exclusion statement

The Company will disregard any votes cast on Resolution 6 by or on behalf of:

- any persons who participated in the issue of the Notes; or
- any associates of those persons; unless the vote is cast by:
  - a person as a proxy for a person entitled to vote in accordance with a direction on the voting form; or
  - the Chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the voting form to vote as the proxy decides.

Only ordinary shareholders may vote on Resolution 6.

ASX has granted a waiver from ASX Listing Rule 14.11 to the extent necessary to permit the Company to count votes cast on Resolution 6 by persons who are acting solely in a fiduciary, nominee, trustee or custodial capacity (**Nominee Holders**) on behalf of beneficiaries who did not participate in the issue of the Notes referred to in these Explanatory Notes. The waiver is subject to the following conditions:

- the beneficiaries provide written confirmation to the Nominee Holders that they did not participate in the issue of the Notes, nor are they an associate of a person who participated in the Notes issue;
- the beneficiaries direct the Nominee Holders to vote for or against Resolution 6; and
- the Nominee Holders do not exercise discretion in casting a vote on behalf of the beneficiaries.

### What do the Directors recommend?

The Directors recommend that you vote "For" Resolution 6.

### Resolution 7

#### Selective buy-back of Convertible Preference Shares (CPS) issued on 1 May 2012

Unless otherwise defined, capitalised terms used in this section have the same meaning as those terms in the CPS Terms of Issue as set out in the CPS Prospectus dated 27 March 2012 (**Prospectus**) (as may be amended from time to time) (**CPS Terms of Issue**). The Prospectus is available from the Registered Office of the Company or may be viewed and downloaded at [www.iag.com.au/shareholder-centre/public-offers-and-proposals](http://www.iag.com.au/shareholder-centre/public-offers-and-proposals).

### Background

On 1 May 2012, IAG issued 3,773,728 CPS with a face value of \$100 each. Under the CPS Terms of Issue:

### (a) Mandatory Conversion:

- CPS will convert into Ordinary Shares on the Mandatory Conversion Date, subject to certain conditions (the Mandatory Conversion Conditions as set out in the Prospectus) being satisfied, unless they are Exchanged (Converted or Redeemed) earlier;
- the Scheduled Mandatory Conversion Date is 1 May 2019. If the Mandatory Conversion Conditions are not satisfied on that date, the Mandatory Conversion Date will be the next Dividend Payment Date on which those conditions are satisfied;
- upon Conversion on a Mandatory Conversion Date, CPS Holders will receive approximately \$101 worth of Ordinary Shares per CPS (based on the VWAP during the 20 Business Days before the Mandatory Conversion Date);
- in certain circumstances (and subject to APRA's prior written approval), CPS may be Exchanged by IAG before 1 May 2019.

This may occur:

- following a Tax Event or Regulatory Event;
- following a Potential Acquisition Event; or
- on an Optional Exchange Date.

### (b) Redemption:

IAG may redeem CPS in accordance with the CPS Terms of Issue and with APRA's prior written approval;

On Redemption, and where the Redemption involves a buy-back of CPS:

- the Exchange Notice constitutes a buy-back offer for the Redemption Price payable on the relevant Exchange Date;
- the CPS Holder must accept the buy-back offer for their CPS and will be deemed to have accepted that buy-back offer for CPS held by that CPS Holder to which the Exchange Notice relates on the date the Exchange Notice is given and will be deemed to have sold those CPS to IAG free of all Encumbrances on the Exchange Date; and
- no Dividend is payable on CPS on the Exchange Date, but the Directors may, in their absolute discretion, determine that the consideration payable for each CPS that is bought back will include an amount (in addition to the Issue Price) equal to a Dividend calculated in accordance with clause 2 of the CPS Terms of Issue for the Dividend Period ending on (but not including) the Exchange Date.

### Summary of the buy-back terms

If the Directors choose to Acquire CPS by way of a buy-back, the buy-back would be a selective share buy-back involving the purchase by the Company of some or all of CPS on issue (3,773,728) and the cancellation of those shares (**Buy-back**).

Under the CPS Terms of Issue, each CPS Holder has effectively agreed to accept any

Buy-back offer for their CPS if IAG elects to buy-back CPS in that manner.

Under the CPS Terms of Issue, CPS may be Redeemed by payment on the Exchange Date of the Issue Price plus any amount equal to a Dividend as at the Exchange Date as described above (together, the **Redemption Price**) by way of buy-back to the CPS Holder.

The Company may also seek to buy back all or some of the CPS from time to time with the agreement of the relevant CPS Holders under a voluntary buy-back scheme conducted outside the CPS Terms of Issue. Any voluntary buy-back offer would be at a maximum price equivalent to the Redemption Price (but calculated as if the relevant date were an Exchange Date) plus such other reasonable amount as the Company determines to be appropriate to facilitate the buy-back scheme.

A voluntary buy-back may be conducted in multiple tranches, at the times determined by the Directors or as agreed with the relevant CPS Holders, at the applicable price (as described above), and at the relevant time (which may differ between the different tranches).

If IAG was to make or agree an earlier voluntary buy-back offer to CPS Holders, it would make the offer available to all CPS Holders (other than, potentially, foreign holders), subject to the amount sought to be bought back and any scale backs.

### Why are we seeking shareholder approval?

A selective buy-back requires shareholder approval under section 257D of the Corporations Act 2001.

Shareholders are being asked to approve the Buy-back so that IAG has more flexibility as to the method, price and timing of Exchange of CPS without the requirement of having to call an extraordinary general meeting subsequent to the AGM to obtain approval for the Buy-back. Shareholders are advised that no decision has yet been made to Exchange CPS and it is not yet known whether (or the extent to which), if such a decision is made, CPS Holders may agree to have their CPS bought back by the Company outside the CPS Terms of Issue.

The Board will only make a decision to buy-back CPS, or to choose particular methods of Exchange, where it considers it to be in the best interests of IAG. This may depend, among other things, on conditions in the capital markets and changes in prudential regulation.

The approval would only be given for a Buy-back of CPS effected within 12 months after the date on which the Resolution is passed.

### What are the potential advantages and disadvantages of the Buy-back?

If the Buy-back is approved, IAG would have

the flexibility to Exchange CPS by way of a Buy-back subject to APRA's prior approval, and if the Directors decide that it is in the best interests of IAG to do so.

More generally, IAG is committed to maintaining an efficient capital structure. The practical ability to use a Buy-back as a method of Redemption under the CPS Terms of Issue (or on terms agreed with the relevant CPS Holders) would provide greater capital management flexibility. This may also increase IAG's general flexibility to manage its regulatory capital.

Tax and accounting treatment for the Company and the IAG shareholders of Redemptions and Buy-backs may vary, and the greater flexibility would permit the Directors to consider these factors, among others, in making a decision.

A potential disadvantage of the proposed Buy-back is that following a Buy-back the Company would have a reduced capital base. However, the Directors would consider the adequacy of the reduced capital base having regard to the Company's present and anticipated future needs, in making any decision to select this method of Exchange. In addition, the Directors could not conduct the Buy-back in circumstances where it would materially prejudice the Company's ability to pay its creditors, or where they did not believe it would be in the best interests of the Company as a whole.

### The financial effect of the Buy-back scheme on IAG

As of 19 August 2016, the cost of the Buy-back of all CPS, whether in one or more tranches, would be \$350 million (representing the face value of the CPS), plus:

- a possible further amount equal to a Dividend as at the Exchange Date depending on the manner in which the Company chooses to structure the Buy-back; and
- any further amounts as determined by the Company, described above in the section entitled "Summary of the buy-back terms".

The dividend component of the Buy-back price, if any, may be franked. Dividends separately paid on the Exchange Date would usually be franked.

The Directors would not conduct the Buy-back unless they are satisfied that the Buy-back will have no material adverse impact on the Company's financial or regulatory capital position and no material prejudice to the Company's creditors.

### Source of funds for the Buy-back

The funds for the Buy-back may be provided through existing cash reserves or through implementing other funding alternatives. The Directors will, at the relevant time, consider the best alternative or combination of alternatives for funding the Buy-back.

### Effect of any Buy-back on the control of the Company

As CPS Holders are entitled to vote (together with the holders of ordinary shares in IAG) only on a limited number of matters, including any proposal to wind-up IAG or any proposal that affects the rights attached to CPS, a buy-back will not have any material effect on the control of IAG. The total number of votes capable of being exercised by the CPS Holders in those limited circumstances would be 3,773,728 or approximately 0.15% of IAG's total issued share capital as at 19 August 2016.

### Other relevant information

There is no other information known to any of the Directors of the Company which may reasonably be expected to influence the shareholders of the Company in deciding whether or not to vote in favour of the Resolution to approve the Buy-back which the Company has not previously disclosed to its shareholders.

### Voting exclusion statement

The Company will disregard votes cast on Resolution 7 by the Directors or their associates.

While CPS Holders have voting rights in relation to certain Buy-back resolutions in accordance with the CPS Terms of Issue, the Company will disregard votes cast in favour of Resolution 7 by any person who holds CPS or their associates (as required by section 257D(1)(a) of the Corporations Act 2001).

However, the Company need not disregard a vote if it is cast by:

- one of the Directors, CPS Holders (as appropriate) or their respective associates as a proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the voting form; or
- the Chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the voting form to vote as the proxy decides.

### What do the Directors recommend?

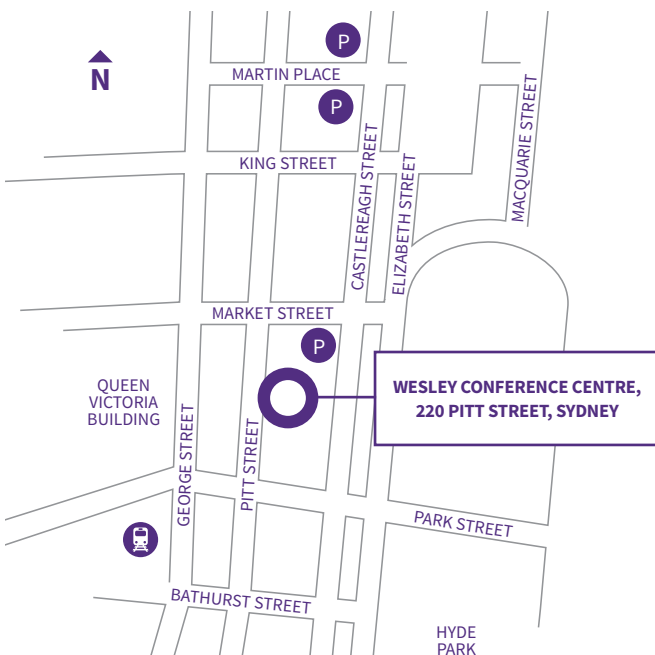
With the exception of the CPS Holders and their associates who, under the Corporations Act, may not vote in favour of the Resolution, the Directors recommend that you vote "For" the Resolution.

### Further Information

If you would like any further information regarding the AGM, please contact the Company's share registry on 1300 360 688 if calling from within Australia; +61 (0) 3 9415 4210 from outside Australia; or visit the IAG website at [www.iag.com.au/shareholder-centre/annual-meetings](http://www.iag.com.au/shareholder-centre/annual-meetings).

## DETAILS OF THE MEETING

IAG's 2016 AGM will be held on Friday, 21 October 2016 from 10.00am at the Wesley Conference Centre, 220 Pitt Street, Sydney. It will be webcast at [www.iag.com.au/shareholder-centre/annual-meetings](http://www.iag.com.au/shareholder-centre/annual-meetings).



### Getting there

#### Train

The closest train station is Town Hall (all suburban lines). For information about train times, please call 131 500.

#### Bus

For information about bus routes and timetables, please call 131 500 or visit [www.transportnsw.info](http://www.transportnsw.info).

#### Parking

The closest parking station is Secure Parking situated beneath the Piccadilly Shopping Centre; entry is via 137 Castlereagh Street, Sydney.

### Information about IAG

You can read about IAG's performance for the 2016 financial year in its summary annual review and detailed annual report, which are available by contacting our share registry or by visiting [www.iag.com.au](http://www.iag.com.au).

### Further information

If you would like any further information regarding the AGM, please contact the Company's share registry on 1300 360 688 if calling from within Australia, or +61 (0)3 9415 4210 from outside Australia, or visit the IAG website at [www.iag.com.au/shareholder-centre/annual-meetings](http://www.iag.com.au/shareholder-centre/annual-meetings).



### Australia



### New Zealand



### Vietnam



### Thailand



### India



### Malaysia



### Indonesia



### 100% owned unless marked with a footnote

1 IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.

2 IAG owns 100% of WFI Insurance Limited (WFI), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an authorised representative agreement with WFI.

3 IAG owns 63.17% of AAA Assurance Corporation, based in Vietnam.

4 IAG holds a 98.61% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands.

5 IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.

6 IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.

7 IAG owns 80% of PT Asuransi Parolamas, based in Indonesia.

All ownership percentages are as at 30 June 2016.