

**Insurance Australia Group Limited
Performance Award Rights Terms**

Dated: []

Proposed Terms of Performance Award Rights dated [] to be granted in accordance with the IAG Share and Performance Award Rights Plans Trust Deed

1 Entitlement

1.1 Subject to term 6, each Performance Award Right entitles the Holder to acquire, credited as fully paid, one Share at an exercise price of:

$$\frac{\$1}{\text{No. of Performance Award Rights exercised on any particular day}}$$

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

1.3 Shares transferred on the exercise of Performance 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 Performance Award Right. The Holder's rights are purely personal and contractual.

2 Conditions for exercise of Performance Award Rights

2.1 A Performance Award Right which is an Exercisable Right (which has not lapsed) may be exercised by a Holder at any time before the end of the Exercise Period for the Performance Award Right. The date the Exercise Period will end is described in Column 2 of the table set out below and depends on the status of the Holder at the relevant time as described in Column 1 of the table.

Status of the Holder	The Exercise Period for the Performance Award Right ends on
(i) For a continuing Employee	10 years after the Commencement Date
(ii) For a person who ceases to be an Employee in any of the following circumstances:	the day which is 90 days after the later of:

<ul style="list-style-type: none"> (a) Retirement; (b) redundancy; (c) death; (d) Total and Permanent Disablement; or (e) with the approval of the Board 	<ul style="list-style-type: none"> (1) the end of the Performance Period; (2) the date on which the person ceases to be an Employee, (but not later than 10 years after the Commencement Date).
<p>(iii) For a person who ceases to be an Employee (other than due to serious misconduct involving dishonesty) in circumstances other than:</p> <ul style="list-style-type: none"> (a) Retirement; (b) redundancy; (c) death; (d) Total and Permanent Disablement; (e) with the approval of the Board. 	<p>the day which is 90 days after the date on which the person ceases to be an Employee, (but not later than 10 years after the Commencement Date).</p>

2.2 A Performance Award Right will lapse depending on the status of the Holder, as described in Column 1 of the table below, at the time described in Column 2 of the table below.

Status of the Holder	The day on which the Performance Award Right lapses
<p>(i) For a person who ceases to be an Employee due to serious misconduct involving dishonesty.</p>	<p>the date of ceasing to be an Employee (irrespective of whether it is an Exercisable Right)</p>
<p>(ii) For a person who ceases to be an Employee (in circumstances other than:</p> <ul style="list-style-type: none"> (a) Retirement; (b) redundancy; 	<ul style="list-style-type: none"> - if the Performance Award Right is not an Exercisable Right on the day the person ceases to be an Employee, the date of ceasing to be an Employee. - if the Performance Award Right is an Exercisable Right on the day the

<p>(c) death;</p> <p>(d) Total and Permanent Disablement;</p> <p>(e) with the approval of the Board; or</p> <p>(f) serious misconduct involving dishonesty.)</p>	<p>person ceases to be an Employee, the end of the Exercise Period.</p>
<p>(iii) In the case of a person who is a continuing Employee.</p>	<p>- if at the end of the Performance Period for the Performance Award Right the Performance Award Right is not an Exercisable Right, the end of that Performance Period.</p> <p>- if at the end of the Exercise Period for an Exercisable Right the Performance Award Right is unexercised, the end of the Exercise Period.</p>
<p>(iv) In the case of any other person not covered in (i) (ii) or (iii)</p>	<p>- if the person requests that the Performance Award Right lapses, the date the request is received by Trustee.</p> <p>- if at the end of the Performance Period for the Performance Award Right the Performance Award Right is not an Exercisable Right, the end of that Performance Period.</p> <p>- if at the end of the Exercise Period for an Exercisable Right the Performance Award Right is unexercised, the end of the Exercise Period.</p>

2.2A The Performance Period for a Performance Award Right (which has not lapsed) commences on the third anniversary of the Base Date and depending on the status of the Holder as described in Column 1 ends on the date described in Column 2 of the table set out below.

Status of Holder	Date on which the Performance Period Ends
(i) For a continuing Employee.	5 years from the Base Date.

<p>(ii) For a person who ceases to be an Employee (other than due to serious misconduct involving dishonesty) in any of the following circumstances:</p> <ul style="list-style-type: none"> (a) Retirement; (b) redundancy; (c) death; (d) Total and Permanent Disablement; or (e) with the approval of the Board. 	<p>the later of:</p> <ul style="list-style-type: none"> (1) 4 years from the Base Date; or (2) 12 months from ceasing to be an Employee (but not later than 5 years from the Base Date).
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2.3 A Performance Award Right (which has not lapsed) will become an Exercisable Right if either:

- (a) Both of the following conditions are satisfied:
 - (i) the Performance Award Right is eligible to become exercisable under term 2.4; and
 - (ii) the Trustee gives notice to the Holder that the Performance Award Right has become exercisable in accordance with these terms. The Trustee must notify Holders within 28 days of the Test Day of the Performance Award Rights which have become exercisable;

or

- (b) Both of the following conditions are satisfied:
 - (i) any of the following occur before the end of the Performance Period for a Performance Award Right:
 - (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);
 - (B) a statement is lodged with ASX to the effect that a person has voting power in not less than 15% 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);
 - (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;

- (D) IAG passes a resolution for voluntary winding up; or
 - (E) an order is made for the compulsory winding up of IAG; and
- (ii) the Board gives a notice under this term to the Holder.

2.4 A Performance Award Right is eligible to become exercisable in accordance with the following and subject to the rule set out below:

If on a Test Day in the Performance Period:

When on the Test Day	Number of the Performance Award Rights which are eligible to become exercisable:
1 the Rank does not reach 50	1 nil
2 the Rank reaches 50 or above	<p>2 the number of Performance Award Rights determined by the formula (rounded down to the nearest whole number):</p> $\left[\frac{[2(A-50)+50]}{100} \times B \right] - C$ <p>Where:</p> <p>A is the lesser of:</p> <ul style="list-style-type: none"> (i) the Rank reached on the Test Day; and (ii) 75. <p>B is the Total PARs;</p> <p>C is the number of Performance Award Rights which before the Test Day:</p> <ul style="list-style-type: none"> (i) have become Exercisable ; or (ii) are eligible to become exercisable <p>but in any case the number of Performance Award Rights determined by the formula to be eligible to become exercisable must not be a number less than zero.</p>

Rule

The number of Performance Award Rights eligible to become exercisable at any time cannot exceed the number of Total PARs that have not lapsed.

- 2.5 The Rank for a Test Day is determined by:
- (a) determining as at the Test Day the Total Shareholder Return for IAG and the Total Shareholder Return for each member of the Peer Group; and
 - (b) ranking IAG and the members of the Peer Group by reference to those Total Shareholder Returns on a percentile scale, with the company with the highest Total Shareholder Return at that day ranked at 100.

The Rank for the Test Day is the position of IAG on that percentile scale.

- 2.6 For the purpose of these terms a determination by the Board of the Rank shall be binding and conclusive.

3 Method of exercise of Performance Award Rights

- 3.1 A Performance Award Right is exercised by the holder lodging a notice of exercise of Performance Award Right, together with the exercise price for each Share to be transferred on exercise, with the Trustee or such other person as the Board designates.
- 3.2 Performance Award Rights must be exercised in multiples of 100, unless the Holder exercises all Performance Award Rights able to be exercised at that time. The exercise of some Performance Award Rights only does not affect the Holder's right to exercise other Performance Award Rights at a later time.

4 No Transfers

Performance Award Rights may not be transferred.

5 Quotation of Performance Award Rights and Shares

Performance Award Rights will not be quoted on ASX. If the Shares to be transferred on exercise of Performance Award Rights are not already listed for official quotation and Shares of IAG are listed at that time, IAG will make application to ASX for official quotation of Shares transferred on the exercise of Performance Award Rights as soon as practicable after the Shares are transferred.

6 Participation in future issues

Participation generally

- 6.1 A Holder may only participate in new issues of securities to holders of Shares if the Performance Award Right has been exercised, if that is permitted by its terms, and the Shares in respect of the Performance Award Right have been transferred before the record date for determining entitlements to the issue.

Bonus issues

- 6.2 If IAG makes a bonus issue of shares or other securities pro rata to holders of Shares (other than an issue in lieu of or in satisfaction of dividends or by way of dividend

reinvestment) and no Shares have been transferred in respect of a Performance Award Right before the record date for determining entitlements to the bonus issue then the rights attaching to that Performance Award Right will be altered as follows:

- (i) the number of Shares which the Holder is entitled to have transferred on exercise of the Performance Award Right (S) is determined by the formula:

$$S = N + (N \times R)$$

where:

N = The number of Shares per Performance Award Right which the Holder is entitled to have transferred on the record date to determine entitlements to the bonus issue.

R = The number of Shares (including fractions) offered under the bonus issue for each Share held.

- (ii) the exercise price per Share of a Performance Award Right will not be changed.

Share Rights issues

- 6.3 If IAG makes an offer of ordinary shares pro rata to all or substantially all holders of Shares (whether or not an issue in lieu of or in satisfaction of dividends or by way of dividend reinvestment) for a subscription price which is less than the market price and no Shares have been transferred in respect of a Performance Award Right before the record date for determining entitlements to the issue then the exercise price per Performance Award Right will not be changed. The number of Shares which the Holder is entitled to have transferred on exercise of the Performance Award Right will not change.

Aggregation

- 6.4 If Performance Award Rights are exercised simultaneously then the Holder may aggregate the number of shares or fractions of shares or other securities to which the Holder is entitled to have transferred under those Performance Award Rights. Fractions in the aggregate number only will be disregarded in determining the total entitlement to have transferred.

Reconstruction

- 6.5 In the event of any reconstruction of the issued ordinary capital of IAG the number of shares attaching to each Performance Award Right will be reconstructed in the manner specified below. If the manner is not specified then the Board will determine the reconstruction. In any event the reconstruction will not result in any additional benefits being conferred on Holders which are not conferred on shareholders of IAG (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of shareholders approving the reconstruction of capital) and in all other respects the terms for the exercise of Performance Award Rights will remain unchanged.

In the event of any consolidation or sub-division of shares or reduction or cancellation of capital then the reconstruction will be determined by the following formulae:

- (a) Consolidation; and

(b) Subdivision:

$$S = C \times \frac{B}{A};$$

(c) Reduction of capital by return of share capital:

$$S = C$$

(d) Reduction of capital by cancellation of ordinary shares that is either lost or not represented by available assets:

$$S = C;$$

(e) Pro rata cancellation of fully paid ordinary shares (not within (c) or (d)):

$$S = C \times \frac{B}{A};$$

where:

A = The total number of Shares on issue before the capital reconstruction;

B = The total number of Shares on issue after the capital reconstruction;

C = The number of Shares which the Holder is entitled to have transferred on exercise of a Performance Award Right before the reconstruction;

S = The number of Shares which the Holder is entitled to have transferred on exercise of a Performance Award Right after the reconstruction.

7 Lapse

A Holder may request that some or all of the Performance Award Rights held by that Holder lapse.

8 Liability for tax

8.1 If IAG, or any company in the Group which is the employer or former employer of a Holder ("**Employer Company**"), is obliged as a result of a Holder exercising a Performance Award Right to account to any tax authority for income tax or employment taxes under any wage withholding or other arrangements or for any other tax, levy or charge of a similar nature ("**Tax**"), then the Employer Company is entitled to be reimbursed by the Holder for the amounts paid to the tax authority.

8.2 Where term 8.1 applies, the Trustee is not obliged to transfer Shares to the Holder on exercise of the Holder's Performance Award Right unless IAG is satisfied that arrangements have been made for reimbursement. The arrangements that IAG may make include, without limitation, the sale of Shares acquired on exercise of the Holder's Performance Award Right.

9 Advice

IAG must give notice to each Holder of any adjustment to the number of Shares which the Holder is entitled to have transferred on exercise of a Performance Award Right or the exercise price per share in accordance with the requirements, if any, of the Listing Rules.

10 Notices

Where the Board considers it appropriate, electronic notices may be given by IAG to a Holder.

11 Interpretation

11.1 In these terms words and expressions which have a particular meaning under the Trust Deed have the same meaning and in particular:

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

ASX means Australian Stock Exchange Limited.

Base Date means the date which is the second Trading Day after the date on which IAG's financial results for the twelve month period ending on the **30 June** that immediately precedes the Commencement Date are announced to the ASX.

Board means the board of directors of IAG.

Commencement Date means the date on which the Performance Award Rights are issued to the Holder in accordance with clause 8.6 of the Trust Deed.

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

Exercisable Right means a Performance Award Right that is exercisable in accordance with these terms.

Exercise Period is the period determined in accordance with term 2.1.

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 2001 (Cth).

Holder means the holder of a Performance Award Right.

Listing Rules means the Listing Rules of ASX.

Market Value means, for a company (including IAG):

- (a) on the Base Date, the volume weighted average price at which shares were traded on ASX in the one week period preceding and including the Base Date; and
- (b) on a Test Day, the volume weighted average price at which shares were traded on ASX in the 30 day period preceding and including the Test Day.

Peer Group means the group of companies in the S&P/ASX 100 index (as determined by Standard & Poor's) from time to time with such inclusions and exclusions as may be determined by the Board from time to time.

Performance Period means the period described in term 2.2A.

Rank means the ranking of IAG measured from time to time during the Performance Period in accordance with term 2.5.

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.

Share means a fully paid ordinary share in IAG.

Test Day means:

- (a) the last Trading Day of each calendar quarter where such Trading Day falls in the Performance Period; and
- (b) any other day or days in the Performance Period determined by the Board.

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.

Total PARs means the total number of Performance Award Rights allocated under these terms to the Holder.

Total Shareholder Return as at the Test Day of IAG 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 Test Day; 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 Test Day.

Trading Day means a business day as defined in the Listing Rules.

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 NRMA Share Plan Nominee Pty Ltd.

11.2 In these terms unless the contrary intention appears:

- (a) the singular includes the plural and vice versa;
- (b) reference to a rule, a statute or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them; and
- (c) a reference to a person includes a reference to the person's legal personal representatives, executors, administrators and successors, a firm or a body corporate.

11.3 Headings are inserted for convenience and do not affect the interpretation of these terms.