PROSPECTUS

Insurance Australia Group Limited convertible preference shares

Prospectus for the issue of Insurance Australia Group Limited convertible preference shares to raise $350 million with the ability to raise more or less

Issuer
Insurance Australia Group Limited
(ABN 60 090 739 923)

Structuring Advisors
Macquarie
UBS

Joint Lead Managers
Goldman Sachs
Macquarie
National Australia Bank
UBS
Westpac

Insurance Australia Group Limited
ABN 60 090 739 923

IMPORTANT NOTICES

THIS PROSPECTUS

This Prospectus relates to the offer by Insurance Australia Group Limited (ABN 60 090 739 923) ("**IAG**") of convertible preference shares ("**CPS**") to raise $350 million with the ability to raise more or less.

This Prospectus is dated and was lodged with the Australian Securities and Investments Commission ("**ASIC**") on 27 March 2012. This is a replacement prospectus which replaces the prospectus dated 19 March 2012 and lodged with ASIC on that date ("**Original Prospectus**"). This Prospectus expires on the date ("**Expiry Date**") which is 13 months after 19 March 2012 being the date of the Original Prospectus and no CPS will be issued on the basis of this Prospectus after the Expiry Date.

Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

This Prospectus is available to Australian investors and Eligible RPS Holders in electronic form at www.iag.com.au/cpsoffer. The Offer constituted by this Prospectus in electronic form is available only to persons accessing and downloading or printing the electronic copy of the Prospectus within Australia or Eligible RPS Holders within Australia and is not available to persons in any other jurisdictions (including the United States) without the prior approval of IAG. Persons in Australia and Eligible RPS Holders within Australia having received a copy of this Prospectus in its electronic form may, during the Offer Period, obtain a paper copy of this Prospectus (free of charge) by telephoning the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm). Applications for CPS may only be made on an application form that is attached to or accompanying this Prospectus following the opening of the Offer. A printable version of this Prospectus may be downloaded in its entirety by eligible investors from www.iag.com.au/cpsoffer.

OFFER AND ISSUER

The Offer contained in this Prospectus is an offering by IAG of $350 million CPS at $100 per CPS with the ability to raise more or less.

The CPS are issued by IAG, an ASX-listed company incorporated in Australia. IAG is the parent company of a group of general insurance businesses with leading and established brands in Australia and New Zealand with a growing presence in Asia, and a specialist underwriter in the United Kingdom.

References in this Prospectus to IAG are to the holding company on a standalone basis and references to the Group are to IAG and its subsidiaries on a consolidated basis.

No subsidiary of IAG guarantees or is liable for the CPS. This Prospectus describes the activities and the financial performance and position of the Group because:

- IAG's subsidiaries conduct substantially all of the insurance and other business of the Group and accordingly, the subsidiaries generate the profits that are distributed to IAG in order for IAG to meet its liabilities; and
- substantially all the assets of IAG represent shares in, or other claims on, the Group subsidiaries. As a result, the financial position of IAG is a function of the consolidated net asset position of all of the Group members, after satisfaction of their liabilities (including to policyholders).

See Sections 2, 3 and 7 for further information.

RESTRICTIONS ON DISTRIBUTION

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. As at the date of this Prospectus, no action has been taken to register or qualify CPS or the Offer or to otherwise permit a public offering of CPS outside Australia.

This Prospectus (including an electronic copy) may not be distributed or released, in whole or in part, in the United States. Neither the CPS nor the Ordinary Shares have been or will be registered under the US Securities Act or the securities laws of any state of the United States, and they may not be offered or sold in the United States. The CPS are being offered and sold in the Offer solely outside the United States pursuant to Regulation S under the US Securities Act.

See Section 7.3.2 for further information.

EXPOSURE PERIOD

The Corporations Act prohibits IAG from processing Applications to subscribe for CPS under this Prospectus in the seven day period after 19 March 2012 ("**Exposure Period**"), being the date on which the Original Prospectus was lodged with ASIC. This period may be extended by ASIC by up to a further seven days. This period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of certain deficiencies in this Prospectus in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

FINANCIAL INFORMATION AND FORWARD LOOKING STATEMENTS

Section 4 sets out in detail the financial information referred to in this Prospectus. The basis of preparation of that information is set out in Section 4.

All financial amounts contained in this Prospectus are expressed in Australian dollars and rounded to the nearest million unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

This Prospectus contains forward looking statements which are identified by words such as "may", "could", "believes", "estimates", "expects", "intends" and other similar words that involve risks and uncertainties.

Any forward looking statements are subject to various risk factors that could cause actual circumstances or outcomes to differ materially from the circumstances or outcomes expressed, implied or anticipated in these statements. Forward looking statements should be read in conjunction with the risk factors as set out in Section 5, and other information in this Prospectus.

DEFINED TERMS

Certain capitalised terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary in Appendix B of this Prospectus (page 107) and in the terms and conditions of the CPS as set out in Appendix A (page 89). If there is any inconsistency in definitions between Appendix A and Appendix B, the definitions in Appendix A prevail.

TIME

Unless otherwise stated or implied, references to times in this Prospectus are to Sydney time.

INFORMATION IN THIS PROSPECTUS

Unless otherwise indicated, all information in this Prospectus, while subject to change from time to time, is current as at the date of this Prospectus.

DISCLAIMER

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Prospectus. You should rely only on information in this Prospectus.

Except as required by law, and only to the extent so required, neither IAG nor any other person warrants or guarantees the future performance of IAG, or any return on any investment made pursuant to this Prospectus.

WEBSITE

IAG maintains a website at www.iag.com.au. Information contained in or otherwise accessible through this or a related website is not a part of this Prospectus.

FURTHER QUERIES

If you are considering applying for CPS under the Offer, this document is important and should be read in its entirety.

If you have any questions in relation to the Offer, please call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm).

The information in this Prospectus does not take into account your investment objectives, financial situation or particular needs as an investor. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues). See Section 5 for further information.

If you do not understand any part of this Prospectus, or are in any doubt as to whether to invest in CPS or not, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser before deciding whether to invest.

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CHAIRMAN'S LETTER

27 MARCH 2012

Dear Investor,
On behalf of the Directors, it is my pleasure to invite you to apply for convertible preference shares ("**CPS**").

CPS are fully paid preference shares to be issued by IAG. An application has been made by IAG for CPS quotation on the ASX. CPS will pay semi-annual dividends at IAG's discretion and on the terms outlined in this Prospectus. Dividend payments are expected to be fully franked.

The terms of the CPS are more complex than a simple debt or ordinary equity instrument. Trading volumes in hybrid instruments such as CPS are typically lower than in IAG's ordinary shares.

IAG intends to raise $350 million through the offer of CPS with the ability to raise more or less. IAG will buy back IAG's reset preference shares ("**RPS**") for their face value of $100 each on 15 June 2012. If you currently hold RPS, you may be eligible to reinvest your RPS in CPS.

IAG is the ASX-listed parent of a group of general insurance businesses in Australia and New Zealand with a growing presence in Asia, and a specialist underwriter in the United Kingdom ("**Group**"). Over 90% of the Group's gross written premium is derived from its businesses in Australia and New Zealand.

The Group offers personal and commercial insurance products under some of the most well known brands in its markets including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia and State and NZI in New Zealand.

The offer of CPS forms part of IAG's prudent funding and capital management strategy which targets a diverse capital structure in terms of the amount, duration and quality of capital. IAG's approach to capital management has enabled the Group to retain a strong capital position, despite a recent concentration of natural perils. IAG manages the impact of such events through high quality reinsurance cover and diversification of risk.

The CPS are unsecured and perpetual in nature. They may be redeemed or converted on 1 May 2017 and any later date chosen by IAG and, subject to certain conditions, will mandatorily convert into fully paid ordinary shares of IAG on 1 May 2019 unless they are redeemed or converted by IAG earlier. Additionally, APRA can require the CPS to convert if it considers that conversion is necessary to prevent IAG from becoming non-viable, or if IAG requires public sector capital support to remain viable. This may adversely affect your returns.

This Prospectus contains details of the CPS offer which you should read carefully. In particular, you should consider the risk factors set out in Section 5 before deciding whether to apply for CPS. If you have any questions about the CPS offer, please call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm) or contact your accountant, stockbroker or other professional adviser.

The key dates of the CPS offer are summarised on page 3. On behalf of the Directors, I look forward to welcoming you as a CPS investor.

BRIAN SCHWARTZ
CHAIRMAN

KEY DATES

KEY DATES FOR THE OFFER	DATE
Lodgement of the Original Prospectus with ASIC	19 March 2012
Bookbuild	26 March 2012
Announcement of the Margin and lodgement of this Prospectus with ASIC	27 March 2012
Opening Date	27 March 2012
Closing Date for the General Offer	19 April 2012
Closing Date for the Broker Firm Offer (excluding applications in respect of Reinvested RPS)	30 April 2012
Issue Date	1 May 2012
CPS commence trading on ASX (deferred settlement basis)	2 May 2012
Holding Statements despatched by	7 May 2012
CPS commence trading on ASX (normal settlement basis)	8 May 2012
KEY DATES FOR CPS	**DATE**
First semi-annual Dividend Payment Date	1 November 2012
First Optional Exchange Date	1 May 2017
Scheduled Mandatory Conversion Date	1 May 2019
KEY DATES FOR RPS HOLDERS	**DATE**
Record date for determining Eligible RPS Holders for Reinvestment Offer (relevant RPS must also be held on Closing Date for the Reinvestment Offer)	16 March 2012
Closing Date for the Reinvestment Offer	19 April 2012
Closing Date for the Broker Firm Offer (applications in respect of Reinvested RPS)	19 April 2012
Last day of trading for Reinvested RPS	20 April 2012
Number of Reinvested RPS confirmed and announced	23 April 2012
Reinvested RPS cease trading on ASX (but remain quoted on ASX)	23 April 2012
Reinvested RPS Buy-back Date and payment date for Pro Rata Dividend on Reinvested RPS	1 May 2012
Last day of trading for remaining RPS on ASX	23 May 2012
Remaining RPS cease trading (but remain quoted on ASX)	24 May 2012
Record date for final dividend on remaining RPS	30 May 2012
Buy-back date for remaining RPS and payment date for final dividend on remaining RPS	15 June 2012

DATES MAY CHANGE

These dates are indicative only and may change without notice.

IAG and the Joint Lead Managers may agree to vary the timetable, including extending any Closing Date, closing the Offer early without notice or accepting late Applications, whether generally or in particular cases, or withdrawing the Offer at any time before CPS are issued, at their discretion.

You are encouraged to apply as soon as possible after the Opening Date.

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SECTION 1

Investment overview

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SECTION 1
INVESTMENT OVERVIEW

This Section provides a summary of information that is key to a decision whether to invest in CPS.

TOPIC	SUMMARY	FURTHER INFORMATION
1.1 Key features of the Offer		
Who is the issuer?	– The issuer is Insurance Australia Group Limited ("**IAG**"). – IAG is the parent company of a leading general insurance group in Australia and New Zealand with a growing presence in Asia, and a specialist underwriter in the United Kingdom. – IAG is listed on the Australian Securities Exchange ("ASX") under the code "IAG".	Section 3
What are CPS?	– CPS are fully paid, non-cumulative preference shares issued by IAG. – CPS will Mandatorily Convert into Ordinary Shares on 1 May 2019, subject to certain conditions being satisfied, unless they are Redeemed or Converted earlier.	Section 2
What are the key Offer details?	– The Offer size is $350 million with the ability to raise more or less. – The Issue Price is $100 per CPS.	Section 2.1
What is the purpose of the Offer?	– The Offer is being made as part of IAG's capital management strategy and qualifies as regulatory capital of the Group for APRA purposes. – The proceeds of the CPS will be used for IAG's general corporate purposes including the refinancing of the RPS.	Sections 2.1.4 and 2.2
1.2 Key CPS Terms		
General		
Security	– CPS issued by IAG.	Section 2.1.1
Issue Price	– $100 per CPS.	Section 2.1.3
Issue Date	– 1 May 2012.	
Quotation on ASX	– IAG has applied for CPS to be quoted on ASX and CPS are expected to trade under ASX code "IAGPC".	Section 2.1.7
No guarantee or security	– CPS are not guaranteed by any other member of the Group or secured in any way against any asset of IAG or the Group. – In addition, CPS are not guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction, or by any other person.	Sections 2.1.9 and 2.1.10
Issue credit rating	– IAG has not sought a credit rating for CPS.	Section 2.1.8
Regulatory capital	– APRA has confirmed that CPS qualify as being eligible for inclusion in Residual Tier 1 Capital under its current prudential standards. – APRA has not yet determined the final form of prudential rules applied to entities regulated by APRA resulting from the Basel III Consultation Papers. Should CPS not comply with those rules when finalised, APRA has confirmed that CPS will be eligible for inclusion as Additional Tier 1 Capital under transitional arrangements from 1 January 2013.	Section 2.2.4

TOPIC	SUMMARY	FURTHER INFORMATION
Ranking on winding-up	– In a winding-up of IAG, CPS rank ahead of Ordinary Shares, equally with RPS, the claims of holders of RES and the RES Preference Shares (if issued) and other securities ranking equally with CPS, but behind all creditors of IAG, as shown below. – However, any return in a winding-up may be adversely affected if APRA requires your CPS to be Converted on account of a Non-Viability Trigger Event. **How would CPS rank in a winding-up of IAG?** **Ranking** / **Illustrative examples** **Higher** Preferred and secured debt — Liabilities preferred by law including employee entitlements and secured creditors Unsubordinated and unsecured debt — Bonds and notes, trade and general creditors Subordinated unsecured debt — Subordinated unsecured debt obligations Preference shares — **CPS**, RPS, RES Preference Shares (if issued) and any securities expressed to rank equally with CPS Ordinary Shares — Ordinary Shares **Lower** See Section 4.7 for further information on IAG's capital mix and Section 3.1 for a description of the financial position of the Group and the structural subordination risk in Section 5.2.9.	Sections 2.1.6 and 2.6.5
Dividends		

General	– Dividends on CPS are:
	  – preferred;
	  – discretionary;
	  – non-cumulative;
	  – based on a floating rate;
	  – subject to certain Dividend Payment Tests; and
	  – expected to be fully franked.
	– Dividends are scheduled to be paid semi-annually in arrears.
		Section 2.3.1

SECTION 1
INVESTMENT OVERVIEW CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
Dividend Rate	– The Dividend Rate will be calculated every six months. – The Dividend Rate will be the floating Bank Bill Rate plus the fixed Margin, adjusted for franking credits. – The Margin is 4.00% as determined under the Bookbuild. – The Bank Bill Rate is the 180 day bank bill swap reference rate. – Assuming the Bank Bill Rate is 4.45%[1] and the Margin is 4.00%, the cash Dividend received by a CPS Holder would be 5.9150% per annum (assuming the Dividend is fully franked). A fully franked Dividend Rate of 5.9150% per annum would be equivalent to an unfranked Dividend Rate of 8.45% per annum, if the potential value of franking credits is taken into account in full. However, CPS Holders should be aware that the ability of a CPS Holder to use franking credits will depend on their individual position and that the potential value of franking credits does not accrue at the same time as the cash Dividend is received.	Sections 2.3.2 and 2.3.4
Distribution Restriction	– If for any reason a Dividend has not been paid on a Dividend Payment Date, IAG is not under an obligation to pay the Dividend at a later date. – However, unless the Dividend is paid in full within three Business Days of the Dividend Payment Date, IAG is restricted from paying any dividend or return of capital on Ordinary Shares until and including the next Dividend Payment Date.	Section 2.3.9
Term, Conversion and Exchange		
Term and Mandatory Conversion	– CPS are perpetual and do not have a fixed maturity date. – However, on 1 May 2019 CPS will Mandatorily Convert into approximately $101 worth of Ordinary Shares per CPS, subject to the Mandatory Conversion Conditions being satisfied, including that the price of Ordinary Shares has not fallen by a given amount since the issue of CPS. – CPS can be Exchanged earlier in certain circumstances, including on 1 May 2017 (see below). – Under current prudential standards, perpetual, non-cumulative preference shares which convert into ordinary shares of the issuer are eligible for inclusion as Residual Tier 1 Capital so long as the number of ordinary shares does not exceed a maximum number (see Section 2.4.6) and other requirements of the prudential standards are met.	Section 2.4.3 Section 2.4.5 for the determination of the number of Ordinary Shares received on the Mandatory Conversion Date Section 2.4.4 for the Mandatory Conversion Conditions
Mandatory Conversion Conditions	– Mandatory Conversion will occur provided the Mandatory Conversion Conditions are satisfied (see Section 2.4.4), unless CPS are otherwise Exchanged in accordance with the CPS Terms. – Where the Mandatory Conversion Conditions apply, they are intended to protect CPS Holders against receiving a number of Ordinary Shares limited to the Maximum Conversion Number that would be worth less than approximately $101.	Sections 2.4.3 and 2.4.4

Exchange on an Optional Exchange Date	– IAG may elect to Exchange all or some CPS on 1 May 2017 and any date after that.
	– Exchange means:
	  – Conversion into approximately $101 worth of Ordinary Shares per CPS;
	  – Redemption for $100 per CPS; or
	  – a combination of Conversion and Redemption.
		Section 2.5

Early Exchange by IAG	– IAG may also elect at its option to Exchange all or some CPS after a Tax Event or a Regulatory Event, and may elect at its option to Exchange all CPS following the occurrence of a Potential Acquisition Event.	Section 2.5
Exchange Methods	– When under the CPS Terms IAG has a choice as to the method of Exchange (Conversion or Redemption), that choice will be made by IAG in its absolute discretion. Without limiting its discretion, when making a decision, IAG may, but is not obliged to, consider its financial position, funding requirements, capital management strategy and an assessment of the prevailing market conditions.	Section 2.5.6

(1) The Bank Bill Rate on 23 March 2012 was 4.45% per annum.

TOPIC	SUMMARY	FURTHER INFORMATION
Conversion on a Non-Viability Trigger Event	– CPS will Convert if at any time APRA has determined that CPS must be Converted because without Conversion or a public sector injection of capital (or equivalent capital support) IAG would become, in APRA's opinion, non-viable. – Any such Conversion would not be subject to the Mandatory Conversion Conditions being satisfied and the number of Ordinary Shares a CPS Holder will receive is capped at the Maximum Conversion Number. As a result, CPS Holders may receive a number of Ordinary Shares worth less than approximately $101, for each CPS that they held. – If IAG is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting CPS (unless before the date for Conversion an order is made by a court or an effective resolution is passed for the winding-up of IAG), the rights of CPS in respect of dividends and return of capital will be automatically varied so that a CPS Holder would have, in respect of the CPS, rights in respect of dividends and capital return broadly equivalent to the rights of a person holding the number of Ordinary Shares the CPS Holder would have held if the Conversion had occurred. In the CPS Terms and this Prospectus, this variation is referred to as CPS being "Written Down".	Section 2.6
Exchange on Acquisition Event	– IAG must Exchange all CPS after an Acquisition Event has occurred.	Section 2.7
Restrictions on Exchange	– IAG's rights to Redeem or Convert are subject to certain restrictions including APRA's prior written approval.	Sections 2.5 and 2.7
No CPS Holder right to request Exchange	– CPS Holders do not have a right to request Exchange.	Section 2.5.8
1.3 Overview of IAG and its business model		
Overview	– IAG is the parent company of a leading general insurance group in Australia and New Zealand with a growing presence in Asia, and a specialist underwriter in the United Kingdom. Over 90% of the Group's gross written premium ("**GWP**") is derived from its businesses in Australia and New Zealand. – The Group offers personal and commercial insurance products under some of the most well known brands in its markets including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia. – The Group currently employs approximately 13,000 people worldwide and is headquartered in Sydney, Australia. – IAG is listed on ASX under ASX code "IAG" and has a market capitalisation of $7.0 billion[2], ranking it among the 35 largest Australian listed companies.	Sections 3.1, 3.2 and 3.3
Strategic priorities	– The Group's strategic priorities are to: – accelerate growth in Australia and New Zealand by stepping up initiatives to drive profitable organic growth, while remaining open to acquisition opportunities; – restore profitability in the UK; and – boost its Asian footprint so the Asia division delivers 10% of the Group's GWP by 2016 on a proportional basis.	Section 3.5
Financial profile and performance	– For the half year ended 31 December 2011, the Group reported: – insurance profit of $271 million (1H11: $470 million, FY11: $660 million), representing an insurance margin of 7.1% (1H11: 12.7%, FY11: 9.1%); – net profit attributable to Shareholders of $144 million (1H11: $161 million, FY11: $250 million); and – GWP of $4.32 billion (1H11: $3.94 billion, FY11: $8.05 billion), representing growth of 9.7% compared to the 1H11 reporting period.	Section 4
Experienced management team	– IAG has a stable management team with extensive experience in financial services.	
What is the impact of the Offer on the Group?	– See Section 4.2.2 for a pro forma balance sheet of the Group following the Offer.	Section 4.2.2

(2) Market capitalisation as at 23 March 2012.

SECTION 1
INVESTMENT OVERVIEW CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
1.4 Key risks associated with CPS		
Before applying for CPS, you should consider whether CPS are a suitable investment for you. There are risks associated with an investment in CPS and in IAG, many of which are outside the control of IAG and its Directors. These risks include those in this Section 1.4, Section 1.5 and Section 5 and other matters referred to in this Prospectus.		
Market price of CPS	– The price at which CPS Holders are able to sell CPS on ASX is uncertain. Circumstances in which the price of CPS may decline include general financial market conditions, the availability of better rates of return on other securities and investor perception of IAG's financial performance or position. Unlike Ordinary Shares, CPS do not provide a material exposure to growth in the Group's business.	Section 5.1.1
Liquidity	– There may be no liquid market for CPS. – CPS Holders who wish to sell their CPS may be unable to do so at a price acceptable to them, or at all.	Section 5.1.2
Fluctuation in Ordinary Share price	– The market price of Ordinary Shares may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions and IAG's financial performance and position. As a result, the value of Ordinary Shares received by CPS Holders upon Conversion may be greater than or less than anticipated when they are issued or thereafter.	Section 5.1.3
Dividends may not be paid	– There is a risk that Dividends will not be paid, including where the Directors determine not to pay a Dividend or where APRA objects to the Dividend payment. – Dividends are non-cumulative. Accordingly, in the event that IAG does not pay a scheduled Dividend, a CPS Holder has no entitlement to such Dividend.	Section 5.1.4
Changes in Dividend Rate	– The Dividend Rate will fluctuate (both increasing and decreasing) over time as a result of movements in the Bank Bill Rate. – There is a risk that the Dividend Rate may become less attractive when compared to the rates of return available on comparable securities.	Section 5.1.5
It is not certain whether and when CPS may be Converted or Redeemed	– There are a number of scenarios in which CPS may be Converted or Redeemed. It is uncertain whether and when Conversion or Redemption may occur. The timing of any Conversion or Redemption may not suit CPS Holders. – CPS may not Convert at all.	Sections 5.1.6 to 5.1.10 and 5.1.11
Conversion on account of a Non-Viability Trigger Event	– If Conversion occurs following a Non-Viability Trigger Event, you may receive significantly less than $101.01 worth of Ordinary Shares per CPS and in cases where IAG is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting CPS (except where before the date for Conversion, an order is made by a court or an effective resolution is passed for the winding-up of IAG), the rights attached to your CPS in respect of dividends and return of capital will be varied (see Sections 1.2 and 2.6.5).	Section 5.1.11
Restrictions on rights and ranking in a winding-up of IAG	– In a winding-up of IAG, CPS rank ahead of Ordinary Shares, equally with RPS, the claims of RES holders and the RES Preference Shares (if issued) and other securities ranking equally with CPS, but behind all creditors of IAG. – If there is a shortfall of funds on a winding-up of IAG to pay all amounts ranking senior to and equally with CPS, CPS Holders will lose all or some of their investment.	Section 5.1.12
1.5 Key risks associated with IAG, the Group and the general insurance industry		
A summary of some of the key risks associated with IAG, which are more fully detailed in Section 5, is set out below.		
Catastrophes and latent risks	– The Group is subject to the risk of large-scale claims arising out of catastrophes, such as the recent New Zealand earthquakes and the New South Wales and Queensland floods, which may have a significant impact on its earnings and financial condition. Catastrophes may include cyclones, earthquakes, tsunamis, wind, hail, floods, bushfire, volcanic eruptions and explosions, which are inherently unpredictable with regard to incidence and severity. Reinsurance is used extensively to mitigate these risks. – Certain product classes offered by the Group may also be subject to the emergence of new types of latent claims that, should they eventuate, could have a material adverse impact on the Group's financial performance and position. An historical example includes asbestos. Reinsurance as well as policy exclusions are used to mitigate or remove these risks.	Section 5.2.1

TOPIC	SUMMARY	FURTHER INFORMATION
Reinsurance	– There can be no assurance that the Group's current reinsurance coverage is adequate, that it matches the underlying risks assumed, that reinsurance will be available at adequate rates or levels in the future or that increases in reinsurance costs will be recovered through premium rates. – The Group is exposed to the credit and disputed coverage risk that its reinsurers may default on their obligation to pay claims. Failure by a reinsurer to make payment for any reason could adversely affect the Group's financial performance and position and therefore its ability to meet obligations to its policyholders. The Group carefully manages counterparty credit exposure to mitigate this risk.	Section 5.2.2
Competition	– The Group's position as a leading general insurance group in Australia and New Zealand is an important factor in it being able to achieve strong and sustainable insurance margins. – Competitors, existing and new, developing superior business models, or further industry consolidation, could result in competitors improving their scale, increasing pressure on the Group's ability to maintain its market share and/or its insurance margins.	Section 5.2.3
Investment performance	– The Group invests in a range of different funds and markets and accordingly, is exposed to risk and volatility in those markets generally and in the securities and other assets in which it invests.	Section 5.2.4
Mergers, acquisitions and divestments	– The Group regularly examines its portfolio of businesses and a range of corporate and other opportunities with a view to pursuing merger, acquisition or divestment activities which are designed to improve its strategic and/or market position and performance over the medium to long term. – Any merger, acquisition or divestment activities which are pursued could, for a variety of reasons, have a material impact on the financial performance and position of the Group including diversion of management resources, dilution of focused effort or loss on divestment.	Section 5.2.11
1.6 Information for RPS holders		
This Section 1.6 sets out information for current holders of RPS, who may be eligible to apply under the Reinvestment Offer to reinvest their RPS in CPS.		
What are RPS?	– RPS are redeemable preference shares issued by IAG in 2002 (as amended in 2007).	Section 6.1.1
Are RPS being bought back or redeemed?	– At or around the date of this Prospectus, IAG will give RPS holders an RPS exchange notice to buy back RPS for their face value ($100) on 15 June 2012.	Section 6.1.2
What is the Reinvestment Offer?	– Under the Reinvestment Offer, Eligible RPS Holders may elect for some or all of their RPS registered on 16 March 2012 to be bought back early for $100 each on 1 May 2012. – Eligible RPS Holders may have the RPS buy-back price (i.e. $100 per RPS) applied to the Application Payment for CPS. – Eligible RPS Holders do not need to submit cash Application monies, to reinvest their RPS.	Sections 6.1.3 and 6.5.1
What is the purpose of the Reinvestment Offer?	– The Reinvestment Offer will enable IAG to refinance RPS as well as offer Eligible RPS Holders the opportunity to reinvest in CPS and maintain an ongoing investment in IAG.	Section 6.1.4
Who is eligible to participate in the Reinvestment Offer?	– To participate in the Reinvestment Offer, you must: – be a registered holder of RPS on 16 March 2012; – be shown on the RPS register as having an address in Australia; and – not be in the United States or be acting as a nominee for a person in the United States ("**Eligible RPS Holder**"). – If you are an Eligible RPS Holder and elect for any RPS to be reinvested in CPS ("**Reinvested RPS**"), you are prohibited from dealing with those Reinvested RPS and must hold the required number of RPS until the Closing Date of the Reinvestment Offer on 19 April 2012.	Section 6.1.5

SECTION 1
INVESTMENT OVERVIEW CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
What are the options available to RPS holders?	– If you are an Eligible RPS Holder, in addition to reinvesting your RPS in CPS, you have a number of other choices which are set out in Section 6.3.1. – If you are an Eligible RPS Holder you may wish to: – reinvest all of the RPS registered in your name on 16 March 2012; – reinvest some, but not all, of the RPS registered in your name on 16 March 2012; – apply for more CPS than the number of RPS registered in your name on 16 March 2012; – take no action; or – sell RPS on market through your broker. – Ineligible RPS holders are limited to the choices set out in Section 6.3.2.	Section 6.3
If I elect to participate in the Reinvestment Offer, what dividends will I receive on RPS?	– If you are an Eligible RPS Holder and elect for any RPS to be reinvested in CPS, you will receive a Pro Rata Dividend on the Reinvested RPS, to be paid on the Reinvested RPS Buy-back Date. – The amount of the Pro Rata Dividend paid on the Reinvested RPS Buy-back Date will be $2.1286 per $100 (being the 138 days dividend accrued at 5.63% per annum between 15 December 2011 and 1 May 2012 and calculated in accordance with the RPS terms). – The Pro Rata Dividend cannot be reinvested in CPS.	Sections 6.1.6 and 6.1.7
Will I receive a priority allocation of CPS?	– If you are an Eligible RPS Holder and you apply under the Reinvestment Offer, you will receive a priority allocation of CPS applied for, over General Applicants, if there is excess demand for CPS.	Section 6.1.8
What are the risks associated with participating in the Reinvestment Offer?	– If you are an Eligible RPS Holder and you apply under the Reinvestment Offer, you may receive an allocation of CPS and as such, you will be subject to the risks associated with an investment in CPS and in IAG, many of which are outside the control of IAG and its Directors. – These risks should be considered before you apply under the Reinvestment Offer.	Sections 6.4 and 5
Is there a minimum Application size?	– If you are an Eligible RPS Holder and own 50 RPS or fewer, you must apply to reinvest all your RPS in CPS if you wish to participate in the Reinvestment Offer. – If you are an Eligible RPS Holder and own more than 50 RPS, you must apply for a minimum number of 50 CPS ($5,000). – You may wish to apply for more CPS than the number of RPS that you hold – but you would have to make an Application Payment for those additional CPS.	Section 6.5.2
What happens to my RPS if I do not participate in the Reinvestment Offer?	– At or around the date of this Prospectus, IAG will give RPS holders an RPS exchange notice to buy back RPS for their face value ($100) on 15 June 2012. – It is expected that RPS will cease trading on ASX on 24 May 2012. – You will receive the face value and a final RPS dividend for each RPS you hold on 30 May 2012.	Section 6.3.1
What are the tax implications of having my RPS bought back?	– You should obtain your own tax advice regarding the implications of the buy-back of your RPS, having regard to your individual circumstances. – A general description of the Australian taxation consequences for RPS holders upon the buy-back of their RPS is set out in Section 8.	Section 8
Where can I find more information about the Reinvestment Offer?	– If you have any questions in relation to the Reinvestment Offer, please call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm).	Section 6

TOPIC	SUMMARY	FURTHER INFORMATION
1.7 The Offer		
When is the Offer Period?	– The Offer opens on 27 March 2012. – The Reinvestment Offer, General Offer and Broker Firm Offer (for applications in respect of Reinvested RPS) close on 19 April 2012. – The Broker Firm Offer (excluding applications in respect of Reinvested RPS) closes on 30 April 2012.	Key dates Section 7
Is there a minimum amount to be raised?	– No. The Offer is for the issue of CPS to raise $350 million with the ability to raise more or less.	Section 7
Is the Offer underwritten?	– No.	Section 7
How is the Offer structured and who can apply?	– The Offer comprises: – an Institutional Offer to Institutional Investors; – a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers; – a Reinvestment Offer made to Eligible RPS Holders; and – a General Offer made to members of the general public who are resident in Australia, including IAG Shareholders and holders of RES. – Subject to IAG's approval, CPS may be offered in certain permitted jurisdictions outside Australia under the Institutional Offer where such offer is made, and accepted, in accordance with the laws of such jurisdictions.	Sections 7.1, 7.2 and 7.3.2
How can I apply?	– Broker Firm Applicants should contact their Syndicate Broker. – General Applicants should complete an electronic or paper copy of the Application Form and pay the Application Payment either electronically or by cheque or money order. – RPS Holder Applicants should complete an electronic (if available) or paper copy of their personalised Application Form and pay the Application Payment (if applicable) either electronically or by cheque or money order. – The allocation policy is described in Section 7.2.	Section 7.2
Is there a minimum Application size?	– Your Application must be for a minimum of 50 CPS ($5,000), except for Applications from Eligible RPS Holders which may be smaller in certain circumstances. See Section 6.5.2 for further details.	Sections 6.5.2 and 7.2
Is brokerage, commission or stamp duty payable?	– No brokerage, commission or stamp duty is payable by you on your Application. You may be required to pay brokerage if you sell your CPS on ASX after CPS have been quoted on ASX.	Section 7.1
What are the tax implications of investing in CPS?	– A general description of the Australian taxation consequences of investing in CPS is set out in Section 8.	Section 8
When will I receive confirmation that my Application has been successful?	– If you are an Applicant in the Broker Firm Offer, Reinvestment Offer or General Offer, you will be able to call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm) from 1 May 2012 to confirm your allocation. – Applicants under the Broker Firm Offer will also be able to confirm their allocation through the Syndicate Broker from whom they received their allocation.	Section 7.2
When will CPS be issued?	– IAG expects that CPS will be issued on 1 May 2012.	Key dates
When will CPS begin trading on ASX?	– IAG expects that CPS will begin trading on 2 May 2012 on ASX on a deferred settlement basis.	Key dates
When will Holding Statements be despatched?	– IAG expects that Holding Statements will be despatched by 7 May 2012.	Key dates
Where can I find more information about this Prospectus or the Offer?	– If you have any questions in relation to the Offer, please call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm). – If you are a Broker Firm Applicant, you should contact your Syndicate Broker.	Section 7

SECTION 1
INVESTMENT OVERVIEW CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
1.8 Key information about people, interests and benefits		
Who are the IAG directors?	– Brian Schwartz AM – Michael Wilkins – Yasmin Allen – Peter Bush – Phillip Colebatch – Hugh Fletcher – Anna Hynes – Philip Twyman	Section 9.1

What significant benefits and interests are payable to Directors and other persons associated with the Offer or IAG?	– Interest or benefit:
	  – Directors – Directors' fees (including committee fees)
	  – advisers and other service providers – fees for services
	  – certain cornerstone investors – cornerstone fees
		Section 9.2

How will the expenses of the Offer be paid?	– The total expenses of the Offer will be paid out of the proceeds of the Offer.	Section 9.3
1.9 What should you do?		
Read this Prospectus in full	– If you are considering applying for CPS under the Offer, this document is important and should be read in its entirety.	

Determine if you are eligible to apply	– The Offer is being made to:
	  – Institutional Investors;
	  – Australian resident retail and high net worth clients of Syndicate Brokers who are invited to apply under the Broker Firm Offer;
	  – Eligible RPS Holders who may apply under the Reinvestment Offer; and
	  – members of the general public who are resident in Australia and who apply under the General Offer.
	– Subject to IAG's approval, CPS may also be offered (as part of any Offer category) in certain permitted jurisdictions outside Australia under the Institutional Offer where such offer is made, and accepted, in accordance with the laws of such jurisdictions.	

Consider and consult	– Consider all risks and other information regarding an investment in CPS in light of your particular investment objectives and circumstances. – If you do not understand any part of this Prospectus, or are in any doubt as to whether to invest in CPS or not, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser before deciding whether to invest.	
Complete and submit your Application Form	– The Application process varies depending on whether you participate in the Institutional Offer, Broker Firm Offer, Reinvestment Offer or General Offer. – See Section 7 for more details. – The Offer may close early so you are encouraged to consider submitting your Application as soon as possible after the Opening Date.	

SECTION 2

About CPS

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SECTION 2
ABOUT CPS

This Section provides information about CPS.

TOPIC	SUMMARY	FURTHER INFORMATION
2.1 General		
2.1.1 What are CPS?	– CPS are fully paid preference shares issued by IAG. – CPS will Mandatorily Convert into Ordinary Shares on 1 May 2019, subject to certain conditions being satisfied, unless they are Redeemed or Converted earlier.	Clauses 1.1, 3, 4, 5, 6 and 7 of the CPS Terms
2.1.2 What is the Offer?	– The Offer is for the issue of CPS to raise $350 million with the ability to raise more or less.	
2.1.3 What am I required to pay?	– The Issue Price is $100 per CPS. – Applications must be for a minimum of 50 CPS ($5,000), except for Applications from Eligible RPS Holders which may be smaller in certain circumstances.	Clause 1.2 of the CPS Terms and Section 6.5.2
2.1.4 Why is IAG issuing CPS?	– The Offer forms part of IAG's prudent funding and capital management strategy which targets a diverse capital structure in terms of the amount, duration and quality of capital and qualifies as eligible for inclusion in Residual Tier 1 Capital of the Group for APRA purposes. – The proceeds of the CPS will be used for IAG's general corporate purposes including the refinancing of the RPS. – The Offer also provides a potential opportunity for RPS holders to reinvest in CPS.	Sections 6.1.4 and 6.5.1
2.1.5 What is the term of CPS?	– CPS are perpetual and do not have a fixed maturity date. – On 1 May 2019, CPS Holders will receive Ordinary Shares on Conversion of the CPS (subject to the Mandatory Conversion Conditions being satisfied and unless IAG Redeems CPS on that date or CPS have been Exchanged earlier). – IAG must also Convert CPS if a Non-Viability Trigger Event occurs. Such Conversion is not subject to the Mandatory Conversion Conditions and can occur at any time. – Subject to APRA's prior written approval, IAG may elect to Exchange some or all CPS on 1 May 2017 or any date after that. – There are other limited circumstances where CPS may be Exchanged.	Clauses 1.1, 3, 4, 5 and 6 of the CPS Terms
2.1.6 How do CPS rank in relation to other IAG instruments?	– In a winding-up of IAG, CPS rank for payment of $100 (plus the amount of any Dividend resolved to be paid but unpaid) ahead of Ordinary Shares, equally with RPS, the claims of RES holders and the RES Preference Shares (if issued) and other securities ranking equally with CPS, but behind all creditors of IAG. Any return in a winding-up may be adversely affected if APRA requires CPS to be Converted on account of a Non-Viability Trigger Event (see Section 2.6 – Non-Viability Conversion). – For the payment of Dividends, CPS rank ahead of Ordinary Shares, equally with RPS and the RES Preference Shares (if issued) and other securities ranking equally with CPS, but behind all creditors of IAG.	Clauses 9.1 and 9.2 of the CPS Terms
2.1.7 Will CPS be quoted on ASX?	– IAG will apply for CPS to be quoted on ASX and CPS are expected to trade under ASX code "IAGPC".	Clause 15 of the CPS Terms
2.1.8 Will CPS be rated?	– IAG has not sought a credit rating for CPS.	
2.1.9 Will CPS be guaranteed?	– CPS are not guaranteed by any member of the Group. – In addition, CPS are not guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction, or by any other person.	
2.1.10 Are CPS secured?	– CPS are not secured against any asset of IAG or the Group.	Clause 9.5 of the CPS Terms

TOPIC	SUMMARY	FURTHER INFORMATION
2.2 Regulatory treatment of CPS		
2.2.1 Who is APRA?	– The Australian Prudential Regulation Authority ("**APRA**") is the prudential regulator of the Australian financial services industry. APRA oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance companies, friendly societies, and most members of the superannuation industry. – APRA's mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system. – APRA's website at www.apra.gov.au includes further details of its functions and prudential standards.	
2.2.2 What is regulatory capital?	– Any business requires capital to support its income generating activities in its chosen industry. – APRA's regulatory capital prudential standards aim to ensure that general insurers and non-operating holding companies of general insurers, such as IAG, maintain adequate capital to support the risks associated with their activities. APRA has detailed guidelines and restrictions on the types of capital instruments that are permitted to form the capital base. The types of capital deemed eligible for inclusion in the capital base are referred to as regulatory capital. – APRA classifies a general insurer's regulatory capital into two tiers for its supervisory purposes – referred to as Tier 1 Capital and Tier 2 Capital. Tier 1 Capital is generally considered a higher quality capital than Tier 2 Capital, generally due to features such as longevity and loss absorption.	

2.2.3 What is Tier 1 Capital?	– APRA is currently reviewing its capital standards for general insurers and non-operating holding companies of general insurers, such as IAG. The aims of the review include improving the risk sensitivity of the capital standards and achieving better alignment across APRA regulated industries.
	– In December 2011, APRA released a consultation package with proposed capital requirements. Under these requirements, Tier 1 Capital is comprised of:
	  – Common Equity Tier 1 Capital; and
	  – Additional Tier 1 Capital.
	– These categories will replace the categories of Tier 1 Capital permitted under existing capital standards of Fundamental Tier 1 and Residual Tier 1 Capital.
	– Common Equity Tier 1 Capital is recognised as the highest quality component of capital. Common Equity Tier 1 Capital for insurers (and their non-operating holding companies) will comprise paid-up ordinary shares, retained earnings, other disclosed reserves permitted for inclusion by APRA and certain other items permitted by APRA less regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital.
	– The non-common equity components of Tier 1 Capital which do not satisfy all of the criteria for inclusion in Common Equity Tier 1 Capital are referred to as Additional Tier 1 Capital. These instruments must be able to absorb losses on a going-concern basis, and can include both equity instruments and for general insurers and a non-operating holding company of a general insurer, such as IAG, capital instruments classified as liabilities for accounting purposes.	

2.2.4 What is the regulatory treatment of CPS?	– CPS are eligible for inclusion as Residual Tier 1 Capital and qualify as regulatory capital of the Group for APRA purposes. – APRA has not yet determined the final form of prudential rules applied to entities regulated by APRA resulting from the Basel III Consultation Papers. Should CPS not comply with those rules when finalised, APRA has confirmed that CPS will be eligible for inclusion as Additional Tier 1 Capital under transitional arrangements from 1 January 2013.	

SECTION 2
ABOUT CPS CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
2.3 Dividends		
2.3.1 What are Dividends?	– Dividends on CPS are preferred, discretionary, non-cumulative floating rate payments that are expected to be fully franked and are subject to certain Dividend Payment Tests. – Dividends are scheduled to be paid semi-annually in arrears on the Dividend Payment Dates, subject to the Dividend Payment Tests. – CPS Holders are expected to receive cash Dividends which have been fully franked. The value and availability of franking credits to a CPS Holder will differ depending on the CPS Holder's particular tax circumstances. Each CPS Holder will only receive the benefit of the franking credits where those credits are able to be claimed in the CPS Holder's tax return. If any Dividend payment is not fully franked, then CPS Holders will be entitled to an additional cash payment to compensate for the unfranked amount. This payment will also be subject to the Dividend Payment Tests. – Dividends are non-cumulative. If a Dividend or part of a Dividend is not paid on a Dividend Payment Date, CPS Holders have no claim or entitlement in respect of non-payment and no right to receive that Dividend at any later time.	Clauses 2 and 9.1 of the CPS Terms
2.3.2 How will the Dividend Rate be calculated?	– The Dividend Rate for each semi-annual Dividend will be calculated using the following formula: **Dividend Rate =** (**Bank Bill Rate + Margin**) x (1 – **T**) where: – **Bank Bill Rate** is the 180 day BBSW rate on the first Business Day of the relevant Dividend Period; – **Margin** is 4.00% as determined under the Bookbuild; and – **T** is the Australian corporate tax rate applicable to the franking account of IAG at the relevant Dividend Payment Date. As an example, assuming the Bank Bill Rate for the first Dividend Period is 4.45% per annum, the Margin is 4.00% per annum and T is 30%, then the Dividend Rate for that Dividend Period would be calculated as follows: Bank Bill Rate 4.45% per annum plus Margin 4.00% per annum Equivalent unfranked dividend rate 8.45% per annum Multiplied by (1 – T) x 0.70 Indicative fully franked Dividend Rate = 5.9150% per annum	Clause 2.1 of the CPS Terms

TOPIC	SUMMARY	FURTHER INFORMATION
2.3.3 What is the Bank Bill Rate?	– The Bank Bill Rate is the 180 day BBSW rate displayed on Reuters page BBSW (or any page which replaces that page) on the first Business Day of each relevant Dividend Period. – The 180 day BBSW rate represents the average interest rate at which institutions on the Australian Financial Markets Association's BBSW panel will trade 180 day Australian dollar bills of exchange accepted by an approved bank. – The BBSW rate is one of the interest rate benchmarks published daily by the Australian Financial Markets Association and appearing on information services (e.g. Reuters page BBSW). BBSW rates provide references for the pricing, rate-setting and valuation of Australian dollar financial securities. The graph below illustrates the movement in BBSW over the last 10 years. The rate on 23 March 2012 was 4.45% per annum. **BBSW** The above graph is for illustrative purposes only and does not indicate, guarantee or forecast the actual BBSW. The actual BBSW for the first and any subsequent Dividend Periods may be higher or lower than the rates in the above graph.	Clause 2.1 of the CPS Terms
2.3.4 How will the Dividend be calculated for each Dividend Period?	– Dividends scheduled to be paid on each Dividend Payment Date will be calculated using the following formula: $\frac{\textbf{Dividend Rate} \times \$100 \times \textbf{N}}{365}$ where: – **Dividend Rate** means the rate (expressed as a percentage per annum) calculated as set out in Section 2.3.2; and – **N** means the number of days in the Dividend Period calculated as set out in the CPS Terms. Following the formula above, if the Dividend Rate was 5.9150% per annum, then the Dividend on each CPS for the first Dividend Period (if the Dividend Period was 182 days) would be calculated as follows: Indicative fully franked Dividend Rate — 5.9150% per annum Multiplied by the Issue Price — x $100.00 Multiplied by the number of days in the Dividend Period — x 182 Divided by 365 — ÷ 365 Indicative fully franked Dividend payment for the first Dividend Period per CPS — $2.9494 The above example is for illustrative purposes only and does not indicate, guarantee or forecast the actual Dividend payment for the first or any subsequent Dividend Period. Actual Dividend payments may be higher or lower than this example. The Dividend Rate for the first Dividend Period will be set on the Issue Date and will include the Margin of 4.00% per annum as determined under the Bookbuild.	Clause 2.1 of the CPS Terms

SECTION 2
ABOUT CPS CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
2.3.5 What is the impact of franking credits?	– Dividends are expected to be fully franked. The franking credits represent a CPS Holder's share of tax paid by IAG on the profits from which the cash Dividend is paid. – CPS Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Dividend. CPS Holders should also be aware that the ability to use the franking credits, either as an offset to a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each CPS Holder. – CPS Holders should refer to the Australian taxation summary in Section 8 and seek professional advice in relation to their tax position.	Section 8
2.3.6 When are the Dividend Payment Dates?	– The first Dividend Payment Date is 1 November 2012. – Subsequent Dividend Payment Dates are 1 May and 1 November each year. – If any of these dates is not a Business Day, then the Dividend Payment Date will be the next Business Day.	Clause 2.5 of the CPS Terms

2.3.7 What are the Dividend Payment Tests?	– The payment of each Dividend is subject to the following Dividend Payment Tests being satisfied:
	  – the Directors of IAG, at their absolute discretion, resolving to pay a Dividend; and
	  – no APRA Condition existing in respect of the relevant Dividend Payment Date.
		Clause 2.3 of the CPS Terms

2.3.8 What are the APRA Conditions?	– For a Dividend to be paid on a Dividend Payment Date, none of the following APRA Conditions must exist in respect of the Dividend Payment Date:
	  – the Dividend payment would exceed the Group's Distributable Profits as at the Record Date for the Dividend payment (unless APRA otherwise approves in writing);
	  – the payment of the Dividend would result in the Minimum Capital Requirement of the Group not complying with APRA's then current capital adequacy guidelines as they are applied to the Group at that time (unless APRA otherwise approves in writing);
	  – the payment would result in IAG becoming, or being likely to become, insolvent; or
	  – APRA otherwise objecting to the payment of the Dividend.
		Clauses 2.3 and 17.2 of the CPS Terms

2.3.9 What is the Distribution Restriction and when will it apply?	– If for any reason a Dividend has not been paid on a Dividend Payment Date ("**Relevant Dividend Payment Date**"), IAG must not, subject to certain exceptions, without approval of a Special Resolution, until and including the next Dividend Payment Date:
	  – resolve to pay or pay a dividend or make any distribution on Ordinary Shares; or
	  – buy back or reduce capital on Ordinary Shares,
	  unless the Dividend is paid in full within three Business Days of the Relevant Dividend Payment Date.
	– The Distribution Restriction is less restrictive on IAG than the corresponding restriction in RES, RES Preference Shares (if issued) and RPS. The Distribution Restriction reflects APRA's current requirements for an instrument to qualify as Tier 1 Capital.
		Clauses 2.8 and 2.9 of the CPS Terms
		
		Clause 3.6 of the RES terms
		
		Clause 2.8 of the RES Preference Share terms
		
		Clause 2.9 of the RPS terms

2.4 Mandatory Conversion		
2.4.1 What is Mandatory Conversion?	– CPS Holders will receive Ordinary Shares on Conversion of the CPS on the Scheduled Mandatory Conversion Date unless the Mandatory Conversion Conditions are not satisfied or, in accordance with the CPS Terms, unless CPS are otherwise Exchanged. – Upon Conversion on a Mandatory Conversion Date, CPS Holders will receive $101.01 worth of Ordinary Shares per CPS based on the VWAP (the volume weighted average price) during a period usually 20 Business Days before the Mandatory Conversion Date[3].	Clauses 3.1, 3.2, 7.1 and 17.2 of the CPS Terms

(3) The VWAP during the 20 Business Days before the Mandatory Conversion Date that is used to calculate the number of Ordinary Shares that CPS Holders receive may differ from the Ordinary Share price on or after the Mandatory Conversion Date. This means that the value of Ordinary Shares received may be more or less than that anticipated when they are issued or thereafter.

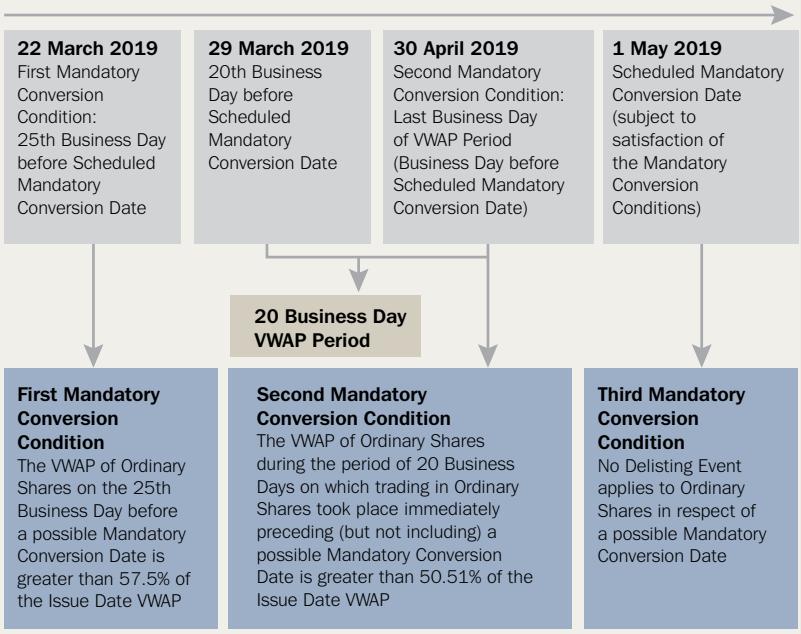
TOPIC	SUMMARY	FURTHER INFORMATION
2.4.2 What are the consequences of Conversion?	– CPS Holders will receive $101.01[4] of Ordinary Shares on Conversion of their CPS on an Optional Exchange Date or a Mandatory Conversion Date, provided the relevant conditions to Conversion set out in the CPS Terms are satisfied. – Conversion may also occur following a Non-Viability Trigger Event or an Acquisition Event. On the occurrence of a Non-Viability Trigger Event, Conversion will occur on the Non-Viability Conversion Date (except where an Inability Event subsists), with CPS Holders receiving a variable number of Ordinary Shares subject to the Maximum Conversion Number. Conversion on the occurrence of a Non-Viability Trigger Event is not subject to the Mandatory Conversion Conditions. – As a result of any Conversion of CPS to Ordinary Shares, CPS Holders will become holders of Ordinary Shares in the capital of IAG, which will rank equally with existing Ordinary Shares from the date of issue. – For the Group more broadly, the composition of the capital base will alter as a consequence of any Conversion and result in Common Equity Tier 1 Capital increasing and Additional Tier 1 Capital decreasing.	
2.4.3 When is the Mandatory Conversion Date?	– The Mandatory Conversion Date will be 1 May 2019, provided the Mandatory Conversion Conditions are satisfied. – If any of the Mandatory Conversion Conditions are not satisfied on this date, then the Mandatory Conversion Date will be the next Dividend Payment Date on which they are satisfied.	Clause 3.2 of the CPS Terms

2.4.4 What are the Mandatory Conversion Conditions?	– The Mandatory Conversion Conditions are as follows:
	  – **First Mandatory Conversion Condition:** the VWAP of Ordinary Shares on the 25th Business Day before a possible Mandatory Conversion Date[5] is greater than 57.5% of the Issue Date VWAP;
	  – **Second Mandatory Conversion Condition:** the VWAP of Ordinary Shares during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) a possible Mandatory Conversion Date ("**VWAP Period**") is greater than 50.51% of the Issue Date VWAP; and
	  – **Third Mandatory Conversion Condition:** no Delisting Event applies to Ordinary Shares in respect of a possible Mandatory Conversion Date (broadly, a Delisting Event occurs when IAG is delisted, its Ordinary Shares have been suspended from trading for a certain period, or it is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting CPS).
	– The First Mandatory Conversion Condition and the Second Mandatory Conversion Condition are intended to provide protection to CPS Holders against receiving less than $101.01 worth of Ordinary Shares per CPS on Conversion (based on the VWAP during the 20 Business Days before the Mandatory Conversion Date).
	– The percentage of 57.5% in the case of the First Mandatory Condition and 50.51% in the case of the Second Mandatory Condition are computed on the basis of the fraction of the Issue Date VWAP allowable by APRA to determine the maximum number of Ordinary Shares into which CPS may Convert (currently 0.5). If APRA permits a lower fraction (and hence a higher Maximum Conversion Number), these percentages will be adjusted downwards accordingly.
	– Under APRA's latest discussion paper on the implementation of the Australian Basel III Rules as they will apply to general insurance groups, APRA proposals would facilitate the Relevant Fraction being reduced to 0.2. If this occurs, the First Mandatory Conversion Condition would be based on 23.0% of the Issue Date VWAP and the Second Mandatory Conversion Condition would be based on 20.202% of the Issue Date VWAP.
	– The Third Mandatory Conversion Condition is intended to provide protection for CPS Holders by making Conversion conditional on CPS Holders receiving Ordinary Shares which are capable of being sold on ASX.
		Clauses 3.3 and 17.2 of the CPS Terms

(4) The value of Ordinary Shares received may be more or less than that anticipated when they are issued or thereafter, see Section 2.4.1.

(5) If no trading in Ordinary Shares took place on that date, the VWAP is the VWAP on the first Business Day preceding that date on which trading in Ordinary Shares took place.

SECTION 2
ABOUT CPS CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
	– The following diagram sets out the timeframes that are relevant for testing whether Conversion will occur, using the Scheduled Mandatory Conversion Date (1 May 2019). These dates are indicative only and may change.  Note: In the diagram above, the 20th Business Day before the Scheduled Mandatory Conversion Date (29 March 2019) rests on the assumption that during the VWAP period, trading takes place on each of the Business Days, which may not be the case if trading in Ordinary Shares is suspended during the period leading up to the possible Mandatory Conversion Date.	
2.4.5 How many Ordinary Shares will a CPS Holder receive on the Mandatory Conversion Date?	– A CPS Holder will receive on a Mandatory Conversion Date a number of Ordinary Shares per CPS ("**Conversion Number**") calculated in accordance with the following formula: $\textbf{Conversion Number} = \dfrac{\textbf{Issue Price}}{99\% \times \textbf{VWAP}}$ subject to the Conversion Number being no greater than the Maximum Conversion Number, where: – **VWAP** is the volume weighted average price of Ordinary Shares during the VWAP Period (described in Section 2.4.4). **Illustrative example of Conversion** As an example, in the case of the Scheduled Mandatory Conversion on 1 May 2019 and assuming the Issue Date VWAP was $3.00, whether the Mandatory Conversion Conditions are satisfied and what is the number of shares received on Conversion would be determined as follows: Step 1 – passing the Mandatory Conversion Conditions – worked example *The First Mandatory Conversion Condition* This condition requires that the VWAP on the 25th Business Day immediately preceding (but not including) 1 May 2019 (assuming there is trading in Ordinary Shares on that day) is greater than the First Test Date Percentage of the Issue Date VWAP: – Assume on 1 May 2019, the First Test Date Percentage is 57.50% (being 115% of the Relevant Fraction (0.50)) – The First Test Date Percentage of the Issue Date VWAP would therefore be $1.73 (being 57.50% of $3.00) – Assume the VWAP on 22 March 2019 (being the 25th Business Day immediately preceding, but not including, 1 May 2019) is $2.91 – Since the VWAP on 22 March 2019 ($2.91) is greater than the First Test Date Percentage of the Issue Date VWAP ($1.73), the First Mandatory Conversion Condition is satisfied	Clause 7.1 of the CPS Terms

TOPIC	SUMMARY	FURTHER INFORMATION
	The Second Mandatory Conversion Condition This condition requires that the VWAP during the period of 20 Business Days in which trading in Ordinary Shares took place immediately preceding 1 May 2019 is greater than the Conversion Test Date Percentage of the Issue Date VWAP: – Assume on 1 May 2019, the Conversion Test Date Percentage is 50.51% (being 101.01% of the Relevant Fraction (0.50)) – The Conversion Test Date Percentage of the Issue Date VWAP would be $1.52 (being 50.51% of $3.00) – Assume the VWAP during the period from 29 March 2019 to 30 April 2019 (being the 20 Business Days in which trading in Ordinary Shares took place immediately preceding 1 May 2019) is $3.13 – Since the VWAP from 29 March 2019 to 30 April 2019 ($3.13) is greater than the Conversion Test Date Percentage of the Issue Date VWAP ($1.52), the Second Mandatory Conversion Condition is satisfied *The Third Mandatory Conversion Condition* This condition requires that no Delisting Event applies on 1 May 2019: – Assume on 1 May 2019, IAG is listed on the ASX, trading in its Ordinary Shares has not been suspended during the five preceding Business Days and on that date and no Inability Event subsists – In these circumstances, the Third Mandatory Conversion Condition is satisfied Step 2 – calculating the number of shares received on Conversion On 1 May 2019, CPS Holders would be entitled to receive in respect of CPS the Conversion Number of Ordinary Shares determined as follows: $\textbf{Conversion Number} = \frac{\textbf{Issue Price}}{99\% \times \textbf{VWAP}}$ – Assume the VWAP from 29 March 2019 to 30 April 2019 (being the 20 Business Days on which trading in Ordinary Shares took place immediately preceding 1 May 2019) is $3.13 – The Issue Price is $100 – The Conversion Number would be 32.2716 (being $100 divided by (99% x $3.13)) – Assuming a CPS Holder has 100 CPS, the total number of Ordinary Shares to which they would be entitled would be 3,227 (i.e. 100 x 32.2716, which number is rounded down to disregard the fraction of the Ordinary Share) This example is for illustrative purposes only. The figures in it are not forward-looking statements and do not indicate, guarantee or forecast the First Test Date Percentage, the Conversion Test Date Percentage, the Issue Date VWAP or future VWAP or other price of Ordinary Shares.	
2.4.6 What is the Maximum Conversion Number?	– The Maximum Conversion Number is calculated in accordance with the following formula: $\text{Maximum Conversion Number} = \frac{\textbf{Issue Price}}{\textbf{Issue Date VWAP} \times \textbf{Relevant Fraction}}$ where: – **Relevant Fraction** is 0.5 or such lower amount permitted by APRA at the time of Conversion.[6]	Clause 7.1 of the CPS Terms
2.4.7 What adjustments to the Issue Date VWAP are made to account for changes to IAG's capital?	– The Issue Date VWAP, and consequently the Maximum Conversion Number, will be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues as set out in the CPS Terms (but not other transactions, including rights issues, which may affect the capital of IAG). – However, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than one per cent of the Issue Date VWAP then in effect.	Clauses 7.4 to 7.7 of the CPS Terms

(6) The Relevant Fraction of 0.5 reflects APRA's current guidelines. However, should APRA amend these guidelines upon implementation of the Australian Basel III Rules as they will apply to general insurance groups, the Relevant Fraction is expected to reduce to 0.2 (or the lowest other fraction less than 0.5 as is permitted by APRA).

SECTION 2
ABOUT CPS CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
2.4.8 What can happen if the Mandatory Conversion Conditions are not satisfied?	– If any of the Mandatory Conversion Conditions are not satisfied, CPS continue to be on issue and Conversion is deferred until the next Dividend Payment Date on which all of the Mandatory Conversion Conditions are satisfied.	Clause 3.2 of the CPS Terms
2.5 Optional Exchange by IAG		
2.5.1 What may occur on an Optional Exchange Date?	– IAG may choose to Exchange: – all or some CPS on an Optional Exchange Date; – all or some CPS after a Tax Event or a Regulatory Event; or – all CPS after a Potential Acquisition Event. – Exchange means: – IAG Converts CPS into a variable number of Ordinary Shares with a value (based on the VWAP during a period, usually 20 Business Days, before the Exchange Date) of $101.01[7] per CPS; – IAG Redeems CPS for $100 per CPS; or – a combination of Conversion and Redemption. – Following a Potential Acquisition Event, IAG may not elect to Redeem CPS unless the Potential Acquisition Event occurs on or after the fifth anniversary of the Issue Date. – IAG's right to elect to Redeem or Convert is subject to APRA's prior written approval and is restricted in circumstances described further in Sections 2.5.4, 2.5.5 and 2.5.6, all below. – CPS Holders should not expect that APRA will give its approval to any Redemption or any Conversion	Clauses 5, 7, 8 and 17.2 of the CPS Terms
2.5.2 When is the Optional Exchange Date?	– The Optional Exchange Date is 1 May 2017 and any date after that.	Clauses 5.1 and 17.2 of the CPS Terms
2.5.3 What is a Tax Event, Regulatory Event, or Potential Acquisition Event?	– A summary of these events, which give IAG the right to Exchange CPS is as follows: – a **Tax Event** means that the Directors receive advice that as a result of a change in law in Australia, there is more than an insubstantial risk that: – IAG will be exposed to a more than insignificant increase in IAG's costs in relation to CPS being on issue; – a Dividend would not be frankable or would give rise to an additional franking debit; or – franking credits would not be available to Australian tax resident CPS Holders generally; – a **Regulatory Event** will broadly occur if IAG receives legal advice that, as a result of a change of law or regulation on or after the Issue Date, additional requirements would be imposed on IAG in relation to CPS which the Directors determine to be unacceptable, or under which the Directors determine that IAG is not or will not be entitled to treat some or all CPS as Residual Tier 1 Capital, other than where the reason for that is that IAG has exceeded a limit on the recognition of Residual Tier 1 Capital which was in effect on the Issue Date, including a limit arising on a given date under the Basel III Consultation Papers known as at the Issue Date; and – a **Potential Acquisition Event** will broadly occur if: – a takeover bid is made to acquire IAG's Ordinary Shares and the offer is, or becomes, unconditional and the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue or a majority of Directors recommend acceptance of the offer (without the need that all regulatory approvals necessary for the acquisition have been obtained); or – a court orders the holding of meetings to approve a scheme of arrangement with respect to IAG which would result in a person having a relevant interest in more than 50% of the Ordinary Shares on issue after the scheme is implemented.	Clauses 5.2 and 17.2 of the CPS Terms

(7) If Conversion occurs as a result of an Acquisition Event or Potential Acquisition Event, the period for calculating the VWAP may be less than 20 Business Days before the Acquisition Exchange Date or the Exchange Date (as the case may be).

TOPIC	SUMMARY	FURTHER INFORMATION
2.5.4 What are the requirements for Conversion to be elected as the Exchange Method?	– IAG may not elect to Convert CPS under an Optional Exchange if, on the second Business Day before the date on which IAG sends a notice advising CPS Holders that it wishes to Convert CPS (or, if trading in Ordinary Shares did not occur on that date, the last Business Day prior to that date on which trading in Ordinary Shares occurred) ("**Non-Conversion Test Date**"), an Optional Conversion Restriction applies. – Further, if IAG has elected to Convert CPS, IAG may not proceed to Convert CPS if, on the Exchange Date, certain further Conversion restrictions apply.	Clauses 5.4 and 5.5 of the CPS Terms
2.5.5 What are the Optional Conversion Restrictions?	– The Optional Conversion Restrictions are: – **First Optional Conversion Restriction:** the VWAP on the Non-Conversion Test Date is less than or equal to the First Test Date Percentage of the Issue Date VWAP; and – **Second Optional Conversion Restriction:** a Delisting Event applies in respect of the Non-Conversion Test Date.	Clause 5.4 of the CPS Terms
2.5.6 What are the requirements for Redemption to be elected as the Exchange Method?	– IAG may not specify Redemption as the Exchange Method unless: – the CPS which are the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality; or – APRA is satisfied that the Group's capital position is well above its minimum capital requirements after IAG elects to Redeem the CPS. – IAG may not specify Redemption as the Exchange Method where a Potential Acquisition Event occurs unless the Potential Acquisition Event has occurred on or after the fifth anniversary of the Issue Date.	Clause 5.3 of the CPS Terms
2.5.7 What are the further Conversion restrictions on the Exchange Date?	– The further Conversion restrictions on the Exchange Date are that the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of the Exchange Date if the Exchange Date were a possible Mandatory Conversion Date. – If the further Conversion restrictions on the Exchange Date apply, IAG will notify CPS Holders and the Conversion will be deferred until the next Dividend Payment Date on which the Mandatory Conversion Conditions would be satisfied if that Dividend Payment Date were a possible Mandatory Conversion Date unless the CPS are otherwise Exchanged in accordance with the CPS Terms.	Clause 5.5 of the CPS Terms
2.5.8 Can CPS Holders request Exchange?	– CPS Holders do not have a right to request Exchange.	Clause 9.9 of the CPS Terms
2.6 Non-Viability Conversion		
2.6.1 Why does CPS include a Non-Viability Trigger Event?	– A Non-Viability Trigger Event is an additional APRA regulatory requirement for CPS to be characterised as Additional Tier 1 Capital under the Basel III Consultation Papers.	
2.6.2 What is a Non-Viability Trigger Event?	– Non-Viability Trigger Event means APRA has provided a written determination to IAG that all (or some) CPS as specified in this determination must be Converted: – as without that Conversion, IAG would become, in APRA's opinion, non-viable; or – as there is to occur a public sector injection of capital (or equivalent capital support) in respect of IAG without which IAG would become, in APRA's opinion, non-viable. – If a Non-Viability Trigger Event occurs, IAG must Convert CPS as required by the determination into the Conversion Number of Ordinary Shares.	Clause 4 of the CPS Terms
2.6.3 What does non-viable mean?	– APRA has not provided guidance as to how it would determine non-viability. – Non-viability would be expected to include serious impairment of IAG's financial position and insolvency. However it is possible that APRA's definition of non-viable may not necessarily be constrained to solvency measures or capital ratios. – APRA may publish further guidance on the parameters used to determine non-viability, however it is possible that it will not provide any further guidance and IAG has no control over whether it will do so.	Clause 4.1 of the CPS Terms Section 5.1.11 of this Prospectus

SECTION 2
ABOUT CPS CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
2.6.4 When does Conversion on account of a Non-Viability Trigger Event occur?	– Conversion on the occurrence of a Non-Viability Trigger Event is not subject to the Mandatory Conversion Conditions being satisfied. If a Non-Viability Trigger Event occurs, IAG must notify CPS Holders within one Business Day of the Non-Viability Trigger Event occurring. That notice must state a date on which the CPS will Convert ("**Non-Viability Conversion Date**"). This date must be no later than the Business Day after the earliest date allowable for Conversion under the ASX Listing Rules following the date IAG gives notice of the Non-Viability Trigger Event.	Clauses 4.2 and 4.3 of the CPS Terms
2.6.5 How many Ordinary Shares will CPS Holders receive on the Non-Viability Conversion Date?	– The number of Ordinary Shares a CPS Holder will receive per CPS on account of a Non-Viability Conversion is the Conversion Number (calculated as described below) but cannot be more than the Maximum Conversion Number. Since there are no conditions to a Non-Viability Conversion, the number of Ordinary Shares a CPS Holder may receive on account of a Non-Viability Conversion may be worth significantly less than $101.01 and a CPS Holder may suffer a loss as a consequence. – The Conversion Number in the event of a Non-Viability Conversion is calculated in accordance with the following formula, subject to the Conversion Number being no greater than the Maximum Conversion Number: $\textbf{Conversion Number} = \frac{\textbf{Issue Price}}{99\% \times \textbf{VWAP}}$ where: – **VWAP** is the volume weighted average price of Ordinary Shares during the period of five Business Days on which trading in Ordinary Shares occurred before the Non-Viability Conversion Date. – Further, if on a Non-Viability Conversion Date a Delisting Event is subsisting and, since the end of the period for determining VWAP, IAG has publicly announced an issue of Ordinary Shares at a price less than the VWAP ("**Latest Equity Issue Price**"), the formula for determining the Conversion Number (set out above) is varied by replacing the "99% x VWAP" with the Latest Equity Issue Price. If there is no Latest Equity Issue Price, the "99% x VWAP" in the formula for determining the Conversion Number applies. – The Maximum Conversion Number is described in Section 2.4.6 (as such number may be adjusted as described in Section 2.4.7).[8] – Additionally, if on the occurrence of a Non-Viability Trigger Event APRA makes a determination that only some CPS are required to be Converted, IAG must endeavour to treat CPS Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels of CPS and other logistical considerations. – If on a Non-Viability Conversion Date IAG is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting CPS which would otherwise be Converted (an "**Inability Event**") (unless before the date of Conversion an order is made by a court or an effective resolution is passed for the winding-up of IAG), CPS will not be Converted but the rights attached to the CPS in respect of dividends and return of capital on and from the Non-Viability Conversion Date are automatically varied such that: – if a winding-up occurs in respect of IAG, instead of a claim for payment out of the surplus available to shareholders in a winding-up of $100 (plus the amount of any Dividend resolved to be paid but unpaid), the holder's claim in respect of a CPS is for the sum which would have been paid in respect of the CPS out of the surplus available to shareholders in a winding-up as if the CPS were the Conversion Number of Ordinary Shares; and – instead of the Dividends as described in section 2.3, if a dividend is paid on Ordinary Shares, a non-cumulative dividend is payable in respect of the CPS in an amount determined as if the CPS were a number of Ordinary Shares equal to the Conversion Number, in each case with that Conversion Number being finally determined as if the CPS had Converted on the Non-Viability Conversion Date (and in any case not exceeding the Maximum Conversion Number) (the "**Fixed Conversion Number**"). This variation is referred to as CPS being "Written Down".	Clauses 4.2, 7.1, 7.12, 7.13 and 17.2 of the CPS Terms

(8) If the number of Ordinary Shares to be issued calculated based on VWAP is less than the Maximum Conversion Number, the VWAP during the five Business Days before the Non-Viability Conversion Date may differ from the Ordinary Share price on or after that date. The Ordinary Shares may not be listed or may not be able to be sold at prices representing their value based on the VWAP calculation or at all.

TOPIC	SUMMARY	FURTHER INFORMATION
	– The laws under which an Inability Event may arise include laws relating to the insolvency, winding-up or other external administration of IAG. Those laws and the grounds on which a court or government authority may make orders preventing the Conversion of CPS, or other reasons which prevent Conversion, may change. – If after CPS are Written Down an Inability Event ceases to apply to IAG, as soon as reasonably practicable after that occurs IAG will convert the CPS into the Fixed Conversion Number of Ordinary Shares.	
2.7 Exchange on an Acquisition Event		
2.7.1 What must IAG do on the occurrence of an Acquisition Event?	– Subject to APRA's prior written approval for any Redemption, IAG must Exchange all CPS on issue if an Acquisition Event occurs.	Clause 6.2 of the CPS Terms
2.7.2 What is an Acquisition Event?	– An Acquisition Event means: – a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and: – the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or – a majority of Directors recommend acceptance of the offer; or – a court approves a scheme of arrangement which when implemented will result in a person other than IAG having a relevant interest in more than 50% of the Ordinary Shares on issue; and all regulatory approvals necessary for the acquisition to occur have been obtained.	Clause 17.2 of the CPS Terms
2.7.3 What Exchange Method can be elected by IAG on the occurrence of an Acquisition Event?	– If an Acquisition Event occurs, IAG must elect (by giving an Acquisition Exchange Notice) to do one of the following in relation to CPS, subject to certain further restrictions: – Convert each CPS into a number of Ordinary Shares with a value of $101.01 (based on the VWAP during a period, usually 20 Business Days, before the Acquisition Exchange Date but a lesser period if trading in Ordinary Shares in the period after the Acquisition Event and before the Acquisition Exchange Date is less than 20 Business Days), provided certain conditions are satisfied; or – with APRA's prior written approval, Redeem each CPS for $100. – If APRA does not approve Redemption (or IAG is not permitted to Redeem) and the restrictions to electing Conversion apply, IAG will not be required to give an Acquisition Exchange Notice to CPS Holders and accordingly, will not be required to elect to Convert or Redeem CPS at that time. However, IAG must elect to Convert or Redeem if the conditions to the election are satisfied before a subsequent Dividend Payment Date (see Section 2.7.7).	Clauses 6, 7, 8 and 17.2 of the CPS Terms
2.7.4 What are the restrictions for Redemption to be elected as the Exchange Method?	– Where an Acquisition Event occurs, IAG may not specify Redemption as the Exchange Method unless the Acquisition Event has occurred on or after the fifth anniversary of the Issue Date and unless: – CPS which are the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality; or – APRA is satisfied that the Group's capital position is well above its minimum capital requirements after IAG elects to Redeem.	Clause 6.3 of the CPS Terms
2.7.5 What are the requirements for Conversion to be elected as the Exchange Method?	– The Optional Conversion Restrictions in relation to Optional Exchange also apply on electing Conversion as the Exchange Method following an Acquisition Event.	Clause 6.3 of the CPS Terms
2.7.6 What are the further Conversion restrictions on the Acquisition Exchange Date?	– If IAG has elected Conversion as the Exchange Method on the occurrence of an Acquisition Event, IAG may not proceed to Convert CPS if, on the date on which Exchange is to occur ("**Acquisition Exchange Date**"), certain further restrictions apply. – These Conversion restrictions on the Acquisition Exchange Date apply if the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of the Acquisition Exchange Date if the Acquisition Exchange Date were a possible Mandatory Conversion Date.	Clause 6.5 of the CPS Terms

SECTION 2
ABOUT CPS CONTINUED

TOPIC	SUMMARY	FURTHER INFORMATION
2.7.7 What happens if Exchange does not occur?	– If IAG is not required to give an Acquisition Event Notice or the further Conversion restrictions prevent Conversion (see section 2.7.6), IAG will give a new Acquisition Event Notice which will specify either Redemption or Conversion (as elected by IAG) as the Exchange Method for Exchange on the next Dividend Payment Date, unless APRA does not approve Redemption (or IAG is not allowed to elect Redemption) and the restrictions to electing Conversion apply. Where Conversion is elected, Conversion will not occur if the further Conversion restrictions (see Section 2.7.6) apply on that date. This process will be repeated until Exchange occurs.	Clause 6.5 of the CPS Terms
2.7.8 What other obligations does IAG have in connection with a takeover or scheme of arrangement?	– On the occurrence of a recommended takeover or scheme of arrangement which would result in an Acquisition Event, if the Directors consider that IAG will not be permitted to elect to Exchange CPS or the Second Mandatory Conversion Condition or Third Mandatory Conversion Condition will not be satisfied, the Directors will use all reasonable endeavours to procure that equivalent takeover offers are made to CPS Holders or that CPS Holders are entitled to participate in the scheme of arrangement or a similar transaction.	Clause 11 of the CPS Terms
2.8 Other		
2.8.1 Can IAG issue further CPS, or other instruments?	– IAG reserves the right to issue further CPS or other instruments, or permit the conversion of shares to preference shares or other instruments, which rank behind, equal with or ahead of CPS, whether in respect of dividends, return of capital in a winding-up of IAG or otherwise. – CPS do not confer on CPS Holders any right to subscribe for new securities in IAG or to participate in any bonus issues of shares in IAG's capital.	Clauses 9.3 and 9.10 of the CPS Terms
2.8.2 What voting rights do CPS carry?	– CPS Holders have no voting rights at meetings of holders of shares in IAG except in the following circumstances: – on any proposal: – to reduce IAG's capital (other than a resolution to approve Redemption of CPS): – that affects rights attached to the CPS; – to wind up IAG; or – to dispose of the whole of the property, business and undertaking of IAG; or – on any resolution to approve terms of a buy-back agreement (other than a resolution to approve Redemption); – during a period in which a Dividend (or part of a Dividend) is in arrears; or – during the winding-up of IAG.	Clause 10 of the CPS Terms
2.8.3 Can IAG amend the CPS Terms?	– Subject to complying with all applicable laws, and with APRA's prior written approval, IAG may amend the CPS Terms without the approval of CPS Holders in certain circumstances. That may include amendments which may affect the rights of CPS Holders, including changes to dates or time periods necessary or desirable to facilitate a Mandatory Conversion, Non-Viability Conversion or Exchange or if in IAG's opinion they are not likely to be materially prejudicial to the interests of CPS Holders as a whole. – IAG may also, with APRA's prior written approval, amend the CPS Terms if the amendment has been approved by a Special Resolution.	Clause 14 of the CPS Terms
2.8.4 What are the taxation implications of investing in CPS?	– The taxation implications of investing in CPS will depend on an investor's individual circumstances. Prospective investors should obtain their own taxation advice. – A general outline of the Australian taxation implications is included in the Australian taxation summary in Section 8.	Section 8
2.8.5 Is brokerage, commission or stamp duty payable?	– No brokerage, commission or stamp duty is payable on Applications for CPS. Holders may have to pay brokerage on any subsequent transfer of CPS on ASX after quotation.	Section 7.1

SECTION 3

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SECTION 3
ABOUT IAG

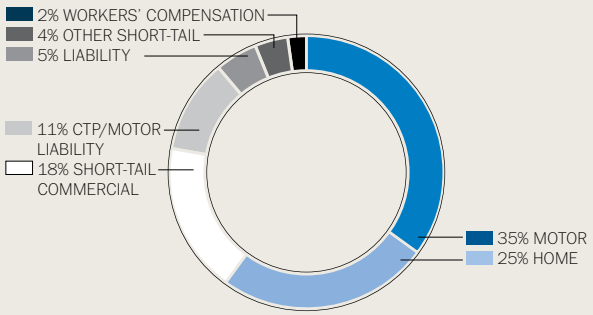
3.1 INTRODUCTION

- IAG is an ASX-listed company incorporated in Australia. IAG is the parent company of a group of insurance businesses with leading and established brands in Australia and New Zealand with a growing presence in Asia, and a specialist underwriter in the United Kingdom. IAG is authorised in Australia as a non-operating holding company of general insurance companies under the *Insurance Act 1973* (Cth) and is subject to prudential supervision by APRA.
- The financial position of IAG as at 31 December 2011 on a standalone and non-consolidated basis is outlined in Section 4.
- This Prospectus describes the activities and the financial performance and position of the Group because:
  - IAG's subsidiaries conduct substantially all of the insurance and other business of the Group and accordingly, generate the profits that are distributed to IAG in order for IAG to meet its liabilities; and
  - substantially all the assets of IAG represent shares in, or other claims on, the Group subsidiaries. As a result, the financial position of IAG is a function of the consolidated net asset position of all of the Group members, after satisfaction of their liabilities (including to policyholders).

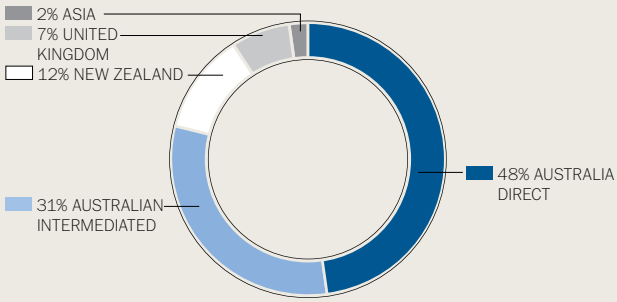
3.2 GROUP OVERVIEW

- The Group is a leading general insurance group in Australia and New Zealand with a growing presence in Asia, and a specialist underwriter in the United Kingdom. Over 90% of the Group's gross written premium ("**GWP**") is derived from its businesses in Australia and New Zealand.
- The Group offers personal and commercial insurance products under some of the most well known brands in its markets including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia; and State and NZI in New Zealand. The Group currently employs approximately 13,000 people worldwide and is headquartered in Sydney, Australia.
- For the half year ended 31 December 2011, the Group's reported GWP was $4.32 billion (1H11: $3.94 billion, FY11: $8.05 million) and net profit attributable to Shareholders was $144 million (1H11: $161 million, FY11: $250 million).
- More information in relation to the Group's performance can be found in Section 4 and at www.iag.com.au/results.

GROUP'S PORTFOLIO OF PRODUCTS
% OF GROSS WRITTEN PREMIUM FOR THE HALF YEAR ENDED 31 DECEMBER 2011



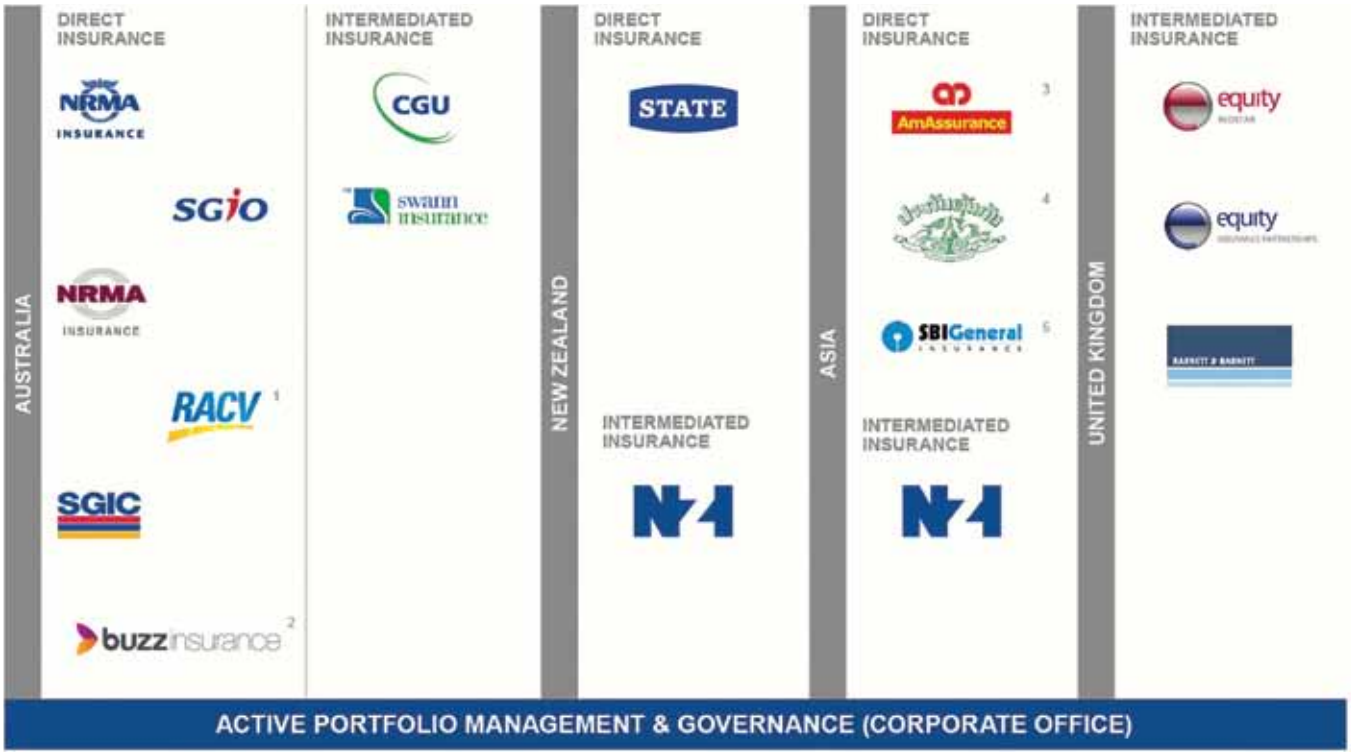
GROUP'S GEOGRAPHICAL PRESENCE
% OF GROSS WRITTEN PREMIUM FOR THE HALF YEAR ENDED 31 DECEMBER 2011



Short-tail insurance refers to the classes of insurance with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs whilst long tail insurance refers to the classes of insurance with an average period generally more than 12 months between the time when premiums are earned and final settlement of claims occurs. Approximately 82% of the Group's GWP is short-tail in nature.

3.3 THE GROUP'S MAJOR BRANDS AND OPERATING MODEL

IAG is a holding company with a portfolio of end-to-end businesses aligned around customers, brands and markets.



Notes:

(1) RACV is via a distribution relationship and underwriting joint venture with Royal Automobile Club of Victoria (RACV) Limited.

(2) RACV has a 30% interest in Buzz Insurance.

(3) 49% ownership of the general insurance arm of AmBank Group, AmG Insurance Berhad, trading under the AmAssurance brand.

(4) 98.6% voting rights in Safety Insurance, based in Thailand.

(5) 26% ownership of SBI General Insurance Company, a joint venture with the State Bank of India.

SECTION 3
ABOUT IAG CONTINUED

3.4 BUSINESS SEGMENTS

3.4.1 The Group in Australia

The Group operates leading general insurance brands in Australia including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance.

Australia Direct Insurance

Australia Direct is IAG's largest business, concentrating on direct personal lines insurance products, including CTP, motor and home and contents insurance, as well as business insurance packages targeted at sole operators and smaller businesses. Australia Direct also offers lifestyle and leisure insurance products including vintage and classic car, boat, caravan and travel.

Australia Direct underwrites approximately eight million policies around Australia, with its call centres answering about four million calls per year and finalising over 500,000 claims annually.

The business operates with single pricing and claims platforms, but with state-based brands selling personal insurance products through a network of 29 company owned branches, over 200 agencies, call centres, the internet and representatives.

Insurance products in New South Wales, the Australian Capital Territory, Queensland and Tasmania are sold primarily under the NRMA Insurance brand, which has sold insurance since 1925. The SGIO brand operates in Western Australia and SGIC in South Australia.

In Victoria, the business distributes direct home, motor and other insurance products via a distribution relationship and underwriting joint venture with Royal Automobile Club of Victoria (RACV) Limited.

A nationwide online brand, Buzz Insurance, was launched in May 2009 and focuses on car and home insurance products.

Australia Intermediated Insurance (CGU)

CGU is one of Australia's largest intermediary-based insurers, with a history dating back to 1851. IAG acquired CGU in 2003.

CGU sells commercial and personal insurance products through a nationwide network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions.

CGU is also a leading provider of workers' compensation services in Australia, operating in most states and territories. In New South Wales and Victoria, it collects premiums and manages claims on behalf of those state governments. In Western Australia, Tasmania, the Australian Capital Territory and the Northern Territory, CGU underwrites policies and manages claims.

Swann Insurance sells a range of niche insurance products including consumer credit and motor vehicle related products. IAG acquired Swann Insurance in 2003.

Swann Insurance provides protection to over 750,000 Australians through its specialist personal insurance products covering motorcycles, cars, bicycles, loan repayments, bill obligations and life insurance.

3.4.2 The Group in New Zealand

The Group is the largest general insurer in New Zealand, with more than 2,000 staff servicing a network of nationwide call centres, sales centres and branches.

The Group's New Zealand business is the country's leading provider of general insurance, directly to consumers under the State brand and indirectly through insurance brokers and agents, under the NZI brand.

New Zealand Direct Insurance (State)

State has been providing New Zealanders with an extensive range of personal and business insurance services for over 105 years, offering its customers car, home, contents, business asset and liability cover and travel insurance policies. IAG acquired State in 2001. State also assists its customers to secure life insurance and funeral cover plans.

Today, in excess of half a million New Zealand households and businesses have access to State's range of insurance products (and receive claims support from more than 900 employees), an easy to navigate website, a number of high tech call centres and 28 local branches.

Proposed acquisition of AMI

In December 2011, IAG announced it had entered into an agreement to purchase the AMI insurance business for NZ$380 million (approximately $288 million).

The New Zealand Commerce Commission and Overseas Investment Commission have approved the acquisition. The acquisition remains subject to approval by the Reserve Bank of New Zealand and completion is expected in the second half of the financial year ending 30 June 2012.

The acquisition excludes all of AMI's liabilities relating to claims from previous earthquakes which have affected the Canterbury region.

AMI is the second largest direct personal lines insurer in New Zealand and wrote over NZ$360 million of premium in the year ended 30 June 2011. Its primary business is insuring homes, contents and vehicles, as well as some farms and boats.

Today, AMI serves around 500,000 customers and has 1.2 million policies in force.

You should also see Section 5.2.11 for more information about risks arising from mergers and acquisitions pursued by the Group which could, for a variety of reasons, have a material impact on the financial performance and position of the Group.

AMI has material reinsurance arrangements in place which provide cover up to NZ$1.4 billion. These arrangements will continue until 30 June 2012, at which time they will be reviewed and renewed or extended to align with the Group's reinsurance programmes.

New Zealand Intermediated Insurance (NZI)

NZI is the leading commercial insurer in New Zealand and one of New Zealand's longest established brands with a heritage dating back to 1859. IAG acquired NZI in 2003.

NZI offers an extensive selection of flexible, comprehensive insurance services for businesses throughout New Zealand, including cover for commercial premises, vehicles, equipment, marine services, professional risks, travel and rural. NZI also provides a range of home, contents and car policies for personal customers who choose the services of a broker for their insurance needs.

Today, NZI enjoys close working partnerships with the majority of New Zealand's independent network of more than 2,200 general insurance brokers and provides customised service solutions for many leading local and international broker houses.

IAG New Zealand (Business Partners)
As a leading insurer, IAG in New Zealand also underwrites vehicle, home and contents insurance for two of New Zealand's leading financial institutions, ASB Bank and Bank of New Zealand. In addition, IAG operates a number of specialist insurance brands which provide travel insurance, classic car, performance car and motorbike cover and warranty products.

3.4.3 The Group in Asia

The Group has the following interests in Asian insurance businesses:

- controlling economic interests in NZI and Safety Insurance in Thailand;
- 49% share of AmG Insurance Berhad, a general insurance joint venture in Malaysia with AMMB Holdings Berhad. AmG has submitted for local regulatory review a proposal to enter into an agreement to acquire Kurnia Insurans (Malaysia) Berhad ("**Kurnia**"). If approved and completed, IAG expects this transaction to conclude towards the end of the second half of the financial year ending 30 June 2012, at which point the merger of AmG and Kurnia will commence, creating the leading motor insurer in Malaysia;
- 26% interest in SBI General Insurance Company, a general insurance joint venture in India with the State Bank of India which commenced trading in 2010; and
- in China, IAG expects to complete the acquisition of a 20% interest in Bohai Property Insurance Company Ltd, a Tianjin-based general insurer, in the second half of the financial year ending 30 June 2012.

3.4.4 The Group in the United Kingdom

In the UK, the Group has a specialist motor underwriting operation, Equity Red Star ("**ERS**"). ERS commenced operations in 1946, and is the largest motor syndicate at Lloyd's, providing insurance to business and personal lines customers. IAG acquired ERS in 2007. The UK business also includes the Equity Insurance Partnerships affinity business and the specialist commercial broking business, Independent Commercial Brokers.

3.5 STRATEGY

The Group's strategy is to manage a portfolio of high performing, customer-focused diverse operations that provide general insurance in a manner that delivers superior experiences for stakeholders and creates value for IAG Shareholders.

3.5.1 Strategic priorities

The Group's strategic priorities are to:

- accelerate growth in Australia and New Zealand by stepping up initiatives to drive profitable organic growth, while remaining open to acquisition opportunities;
- restore profitability in the UK; and
- boost its Asian footprint so the Asia division delivers 10% of the Group's GWP by 2016 on a proportional basis. Asia remains a priority region for the Group and is considered important to medium to long-term growth. Accordingly, the Group is now focused on delivering on the significant potential attached to its existing Asian operations and accelerating its expansion plans beyond the countries in which it has an existing presence.

3.5.2 Financial targets

The Group's strategic priorities are supported by two long-term financial targets:

- return on equity greater than 1.5 times the weighted average cost of capital
  - this return is based on net profit attributable to Shareholders, adjusted for amortisation of intangible assets and unusual items. Based on the Group's historic cost of capital and current business mix, this target equates to a cash return on equity of approximately 15%; and
- top quartile total shareholder return
  - this return is benchmarked against the S&P/ASX Top 50 Industrials.

The aim is to achieve these targets through the cycle, given the nature and volatility of insurance.

3.6 REINSURANCE

Reinsurance is a form of insurance for insurance companies. Under a reinsurance arrangement, one party (the reinsurer) agrees to indemnify another (the cedant i.e. the insurer) against all or part of the liability they have taken on under an insurance policy or policies in return for an agreed premium.

Reinsurance is used by the Group to limit exposure to large single claims and accumulation of claims that arise from the same event. Reinsurance is used to protect all classes of primary risks. The Group's major reinsurance programmes mitigate exposures to natural catastrophes such as cyclone or earthquake. As well as using reinsurance to limit exposure to losses, reinsurance is also used by the Group to stabilise earnings, protect capital resources and ensure efficient control and spread of risks underwritten. The key elements of the Group's reinsurance management framework are described in the Group Reinsurance Management Strategy which is reviewed and approved annually by the Board and submitted to APRA.

The Group's risk appetite states that it must purchase catastrophe reinsurance to cover at least the minimum required by APRA (which is currently to cover a 1-in-250 year event) and retain for each event not more than 4% of net earned premium. The limit of catastrophe cover purchased by the Group as at 1 January 2012 was $4.7 billion ($4.1 billion in 2011), with an event retention of $150 million for the first event. If the extent of insurance loss exceeds the upper limit of cover, the amount in excess of the limit, together with the event retention, would need to be met by the Group.

A detailed description of the current reinsurance arrangements is provided in Section 4.

A description of the risks relating to the Group's reinsurance arrangements can be found in Section 5.

SECTION 3
ABOUT IAG CONTINUED

3.7 REGULATION

As a provider of general insurance products, the Group is subject to ongoing oversight by regulators in the markets in which it operates.

There are currently a number of regulatory reviews completed or underway which could impact the Group:

3.7.1 Australia

A review of the New South Wales CTP scheme

Following the regulator's rejection of the filings of all insurers for 1 January 2012, the industry is waiting for the terms of reference of the scheme's review.

Potential changes to the CTP scheme in the Australian Capital Territory

The Australian Capital Territory Parliament is holding an inquiry into CTP legislation (*Road Transport (Third Party Insurance) Act 2008*) and proposed reforms (*Road Transport (Third Party Insurance) Bill 2011*), with the outcome due in March 2012.

Recent major catastrophes

Several government reviews and inquiries related to recent major catastrophes have been undertaken or are progressing. It is expected that the outcomes of the various reviews and inquiries will result in the insurance industry being asked to undertake a number of reforms, including greater provision of flood cover in policies, increased disclosure and standardisation of flood definitions.

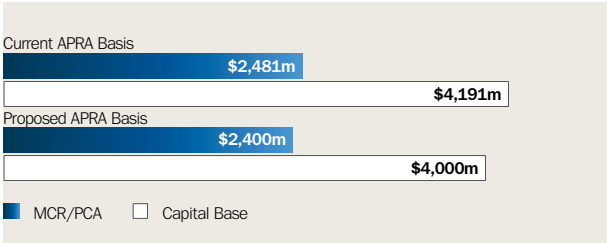
APRA

APRA is currently reviewing its capital standards for both life insurers and general insurers. The aims of the review include improving the risk sensitivity of the capital standards and achieving better alignment across APRA regulated industries. In December 2011, APRA released a consultation package with proposed capital requirements. Whilst APRA has not yet finalised the review of capital standards for general insurers and life insurers (including the Australian Basel III Rules as they will apply to general insurers), the draft proposals have the potential to affect the form and amount of capital IAG is required to hold.

The following section contains an analysis of the APRA proposals, similar to those presented with the 1H12 results, for discussion.

Whilst it is not possible for IAG to forecast the exact impact on the Group's future capital position until APRA issues the final prudential standards and provides additional guidance on the implementation of the new standards, based on the draft regulations we have estimated the impact as at 31 December 2011 as follows:

IMPACT OF DRAFT PROPOSALS FOR CHANGES TO APRA'S CAPITAL STANDARDS AS AT 31 DECEMBER 2011



The key changes are:

- the introduction of a new methodology of Prescribed Capital Amount ("**PCA**") which will replace the existing Minimum Capital Requirement ("**MCR**"). This is expected to have a modest net impact to the Group;
- some impact on the quantum of the capital base as a consequence of a proposed change in treatment for investments in joint ventures (increased deduction from capital base) partially offset by the proposal to cease the current requirement to deduct expected dividends from the capital base; and
- there are draft proposals for new capital composition requirements including a requirement to hold an amount of at least 70% of the PCA[9] in the highest quality form of capital – Common Equity Tier 1 Capital. Whilst at 31 December 2011 the Group was well in excess of the proposed limit, if introduced it has the potential to reduce some future flexibility for the Group to utilise Additional Tier 1 Capital or Tier 2 Capital instruments in the capital mix.

3.7.2 New Zealand

In October 2011, the Reserve Bank of New Zealand issued a revised version of the non-life solvency standard that forms part of the new prudential regime for insurers. Under the new supervisory regime, existing insurers are required to have a licence by 7 March 2012. Licenced insurers will be required to hold specific levels of capital under the solvency standards issued by the Reserve Bank of New Zealand. These standards include the requirement to have sufficient capital and catastrophe reinsurance to cover a 1-in-1,000 year event, from September 2016. The reinsurance cover purchased for calendar 2012 for IAG's existing New Zealand operations was consistent with this requirement.

The new regulatory regime is expected to have limited impact on the Group's New Zealand business as existing governance frameworks are consistent with the new regulatory requirements and expected to be fully compliant within the transitional timeframe.

3.7.3 United Kingdom

Solvency II, the updated set of European Union regulatory requirements for insurers, is expected to come into effect at the start of 2014. It is likely that Solvency II will increase the solvency capital requirements and the management costs for many insurers, putting more pressure on their returns on capital and premium rates.

The UK Parliament is currently undertaking a regulatory reform programme, which is expected to result in the transfer of prudential supervision for banks, insurers and major investment firms to a subsidiary of the Bank of England, the "Prudential Regulation Authority", and the renaming of the Financial Services Authority to the "Financial Conduct Authority", which will have responsibility for consumer protection and market regulation.

(9) Assuming no additional supervisory adjustment is applied to the PCA. The draft standard requires the 70% to be applied to the PCA plus any supervisory adjustment.

SECTION 4

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SECTION 4
FINANCIAL INFORMATION

4.1 INTRODUCTION

The summary financial information (other than the pro forma information) presented in this Section has been extracted from the Group audited financial statements for the years ended 30 June 2010 and 30 June 2011 and auditor reviewed Group financial statements for the half year ended 31 December 2011.

The information has, except as otherwise noted, been prepared in accordance with the measurement and recognition requirements, but not the disclosure requirements, of the Australian Accounting Standards and other mandatory reporting requirements in Australia. The presentation currency of the summary financial information is Australian dollars, unless otherwise stated.

Investors should note that past performance is not a reliable indicator of future performance.

4.2 CONSOLIDATED SUMMARISED FINANCIAL STATEMENTS OF THE GROUP

4.2.1 Consolidated income statement

	Year end 30 Jun 2010 $m	Year end 30 Jun 2011 $m	Half year end 31 Dec 2011 $m
Gross written premium	7,782	8,050	4,318
Gross earned premium	7,621	7,858	4,195
Reinsurance expense	(556)	(620)	(356)
Net premium revenue	7,065	7,238	3,839
Net claims expense	(5,072)	(5,089)	(3,007)
Underwriting expenses	(2,054)	(1,978)	(1,036)
Underwriting profit/(loss)	(61)	171	(204)
Net investment income on assets backing insurance liabilities	554	489	475
Insurance profit	493	660	271
Net investment income from equity holders' funds	96	213	(30)
Other income	259	256	133
Finance costs	(88)	(86)	(44)
Other operating expenses	(358)	(429)	(137)
Profit before income tax	402	614	193
Income tax expense	(212)	(276)	(26)
Net profit	190	338	167
Net profit for the year attributable to:			
Non-controlling interests	99	88	23
Insurance Australia Group Limited	91	250	144

4.2.2 Pro forma consolidated balance sheet

The following table sets out the Group's balance sheets as at 30 June 2011 and 31 December 2011, as well as the pro forma consolidated balance sheet as at 31 December 2011 for the below assumptions:

- $350 million is raised through the Offer less transaction costs of $10 million, recognised as interest bearing liabilities; and
- the buy-back of $350 million of RPS on the upcoming Reset Date for RPS, 15 June 2012, currently recognised as interest bearing liabilities.

The pro forma adjustments do not include:

- 2012 interim dividend of $104 million determined by the Board on 23 February 2012; and
- movements in the Group's balance sheet from 31 December 2011 to the lodgement of this Prospectus, including corporate activities that completed post 31 December 2011.

	As at 30 Jun 2011 $m	As at 31 Dec 2011 $m	Pro forma adjustments Issue of CPS $m	Pro forma adjustments Buy-back of RPS $m	Pro forma 31 Dec 2011 $m
Cash held for operational purposes	509	466	(10)		456
Investments	11,893	12,704			12,704
Premium receivable	2,081	2,069			2,069
Reinsurance and other recoveries	3,904	4,209			4,209
Insurance assets	1,196	1,552			1,552
Goodwill and intangible assets	1,869	1,887			1,887
Other assets	1,471	1,605			1,605
Total assets	22,923	24,492			24,482
Unearned premium liability	4,355	4,477			4,477
Outstanding claims liability	10,783	11,826			11,826
Interest bearing liabilities	1,377	1,627	340	(350)	1,617
Other liabilities	1,828	2,049			2,049
Total liabilities	18,343	19,979			19,969
Share capital	5,353	5,353			5,353
Retained earnings	(795)	(828)			(828)
Reserves and other equity	(141)	(158)			(158)
Non-controlling interests	163	146			146
Total equity	4,580	4,513			4,513

4.2.3 Consolidated cash flow statement

	Year end 30 Jun 2010 $m	Year end 30 Jun 2011 $m	Half year end 31 Dec 2011 $m
Net operating cash flow	1,115	620	649
Net investing cash flow	(849)	38	(630)
Net financing cash flow	(479)	(337)	43
Net movement in cash held	(213)	321	62
Effect of exchange rate	(16)	(42)	2
Cash and cash equivalents at the beginning of the financial period	1,282	1,053	1,332
Cash and cash equivalents at the end of the financial period	**1,053**	**1,332**	**1,396**

Further information on the consolidated cash flow statement can be found in the 31 December 2011 half year financial report.

SECTION 4
FINANCIAL INFORMATION CONTINUED

4.3 SUMMARISED FINANCIAL STATEMENTS FOR INSURANCE AUSTRALIA GROUP LIMITED

The following table contains information extracted from the audited Group financial statements. The Group applied amendments to the Corporations Act that removed the requirement to prepare parent entity financial statements for Insurance Australia Group Limited for the financial year ended 30 June 2011 onwards. The disclosures represent the specific parent entity disclosures for the year ended 30 June 2011. The 30 June 2011 financial year income statement is also presented on this basis for consistency purposes.

The pro forma balance sheet adjustments are the same as the adjustments mentioned in Section 4.2.2.

4.3.1 Income statement

	Year end 30 Jun 2010 $m	Year end 30 Jun 2011 $m	Half year end 31 Dec 2011 $m
Profit for the period	221	377	30

4.3.2 Pro forma balance sheet

	As at 30 Jun 2011 $m	As at 31 Dec 2011 $m	Pro forma adjustments Issue of CPS $m	Pro forma adjustments Buy-back of RPS $m	Pro forma 31 Dec 2011 $m
Receivables/loans from/to related bodies corporate	444	444	(10)		434
Investment in controlled entities	7,213	7,213			7,213
Other assets	1	3			3
Total assets	7,658	7,660			7,650
Payable to/borrowings from related bodies corporate	721	721			721
Interest bearing liabilities	562	807	340	(350)	797
Other liabilities	174	47			47
Total liabilities	1,457	1,575			1,565
Share capital	5,353	5,353			5,353
Retained earnings	848	732			732
Total equity	6,201	6,085			6,085

Note:

Separate parent entity accounts are not required to be included in external reporting, due to changes in Corporations Act.

4.4 FINANCIAL RATIOS FOR THE GROUP

4.4.1 Loss ratio

The loss ratio refers to the net claims expense as a percentage of net earned premium. A high ratio may indicate high claims expenses. For the half year ended 31 December 2011, the loss ratio was 78.3% (FY11: 70.3%).

4.4.2 Expense ratio

The expense ratio refers to the underwriting expenses as a percentage of net earned premium. A high ratio may indicate high underwriting and commission expenses. For the half year ended 31 December 2011, the expense ratio was 27.0% (FY11: 27.3%).

4.4.3 Combined ratio

The combined ratio refers to the sum of the loss ratio and expense ratio. For the half year ended 31 December 2011, the combined ratio was 105.3% (FY11: 97.6%).

4.4.4 Insurance margin

The insurance margin refers to the insurance profit, which is a sum of the underwriting result plus investment income on technical reserves, as a percentage of net earned premium. For the half year ended 31 December 2011, the insurance margin was 7.1% (FY11: 9.1%).

4.5 REINSURANCE PROGRAMME

The Group enters into reinsurance arrangements with numerous reinsurers. Reinsurance is used by the Group to limit exposure to large single claims and accumulation of claims that arise from the same event.

The Group's current philosophy is to limit its main catastrophe retention (i.e. the exposure the Group has to an event or series of events) to a maximum of 4% of net earned premium. Its current retentions are below this level. In addition, the Group's risk appetite states it must purchase catastrophe reinsurance to cover at least the minimum required by APRA (which is currently to cover a 1-in-250 year event).

The Group's catastrophe protections cover all perils to which the Group is exposed in all territories in which the Group underwrites (unless specified above). Further, the Group purchases additional specific reinsurance for its Asian exposures and joint venture companies.

When designing the reinsurance programme, consideration is given to the 1-in-250 year probable maximum loss from each territory in which the Group is exposed. Territorial coverage within the programme ensures that each territory is adequately protected up to and frequently in excess of the 1-in-250 year risk of ruin. The Group's total cover for 2012 provides protection up to $4.7 billion. This reflects the current Australian exposure at this level of ruin and is in excess of the current New Zealand 1-in-250 year risk of ruin for losses that occur in that territory.

The Group is exposed to the credit risk that its reinsurers may default on, or dispute, their obligation to pay claims. To manage default credit risk, the Group purchases reinsurance from counterparties with high credit ratings i.e. lower chance of default. The overall credit quality of the current programme is high, with more than 90% placed with entities rated A+ or better.

Operating on a calendar year basis, the Group's catastrophe reinsurance protection at renewal on 1 January 2012 comprised:

- the main catastrophe programme, operating on an excess of loss basis for all territories and providing cover up to $4.2 billion, with the Group retaining the first $250 million of each loss with one prepaid reinstatement;
- an extra layer, from $4.2 billion to $4.7 billion, providing earthquake cover in respect of Australia and New Zealand[10], with no reinstatement. If the extent of insurance loss exceeds the upper limit of cover, the amount in excess of the limit, together with the event retention, would need to be met by the Group;
- an arrangement to reduce the Maximum Event Retention of the Group below $250 million, to $150 million in Australia and $130 million for New Zealand, as well as specific covers reducing the UK to $50 million;
- third and fourth event covers providing protection above $150 million; and
- an aggregate sideways cover of $250 million excess of $300 million, with qualifying events capped at a maximum contribution of $125 million excess of $25 million, per event.

4.6 CAPITAL MANAGEMENT AND FUNDING

The Group's capital management strategy aims to optimise the appropriate level and mix of capital for its business needs, risk appetite and delivery of sustainable attractive returns to IAG Shareholders. The target level of capitalisation for the Group is assessed by consideration of factors including:

- the probability of ruin over the next one to three years;
- the probability of falling below the APRA MCR over the next one to three years;
- other stakeholder perspectives on capitalisation, including rating agency capital models and associated ratings; and
- Australian and international industry levels of capitalisation.

The Group currently has a long-term capital benchmark of a multiple of 1.45-1.50 times its minimum capital requirement.

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangible assets, giving it strong alignment with regulatory and rating agency models. It is IAG's current intention to have a capital mix in the following ranges over the longer term:

- ordinary equity (net of goodwill and intangible assets) 60-70%; and
- debt and hybrids 30-40%.

4.7 CAPITAL MIX

As at 31 December 2011, the Group's capital mix was at the top end of the target range, with debt and hybrid securities representing 38.3% of total tangible capitalisation.

With the pro forma adjustments mentioned in Section 4.2.2, the pro forma capital mix will remain at the top end of the Group's target range of 30-40% of total tangible capitalisation.

(10) For New Zealand, the reinsurance cover is denominated in NZ$.

SECTION 4
FINANCIAL INFORMATION CONTINUED

	Target	As at 31 Dec 2011		Pro forma	
	%	$m	%	$m	%
Ordinary equity less goodwill and intangible assets	60–70	2,626	61.7	2,626	61.9
Interest bearing liabilities – hybrid securities and debt	30–40	1,627	38.3	1,617	38.1
Total capitalisation		**4,253**	**100.0**	**4,243**	**100.0**

As at 31 December 2011, the Group's interest bearing liabilities were $1,627 million, compared to $1,377 million at 30 June 2011. The increase in the interest bearing liabilities was primarily due to the issue of unsecured subordinated bonds in the New Zealand retail market.

	As at 30 Jun 2011 $m	As at 31 Dec 2011 $m	Pro forma 31 Dec 2011 $m
I. Capital nature			
a. TIER 1 REGULATORY CAPITAL[11]			
RPS	350	350	–
RES	550	550	550
CPS	–	–	350
b. TIER 2 REGULATORY CAPITAL			
GBP subordinated term notes	151	153	153
NZD subordinated term notes	77	76	76
GBP subordinated exchangeable term notes	235	239	239
NZD subordinated term bonds	–	247	247
II. Operational nature			
Other interest bearing liabilities	16	22	22
Less: capitalised transaction costs	(2)	(10)	(20)
Total interest bearing liabilities	**1,377**	**1,627**	**1,617**

4.8 PRO FORMA CAPITAL ADEQUACY POSITION

The following table sets out the Group's pro forma capital adequacy position based on the Group's financial position as at 31 December 2011, after adjusting for the below assumptions:

- $350 million is raised through the Offer less transaction costs of $10 million. The instrument is to be eligible for recognition as APRA Non-Innovative Residual Tier 1 Capital; and
- the buy-back of $350 million of RPS on the upcoming Reset Date for RPS, 15 June 2012, currently eligible for recognition as APRA Innovative Residual Tier 1 Capital.

The MCR multiple is calculated based on the APRA Level 2 requirements and remains above the Group's long-term benchmark of 1.45-1.50x.

	As at 31 Dec 2011 $m	Pro forma adjustments $m	Pro forma $m
Tier 1 Capital[12]	3,025	400	3,425
Tier 2 Capital	1,166	(410)	756
Regulatory capital base	4,191	(10)	4,181
Minimum Capital Requirement (MCR)	2,481		2,481
MCR multiple (times)	1.69		1.69

The MCR multiple decreases to 1.57x on a pro forma basis allowing for the planned acquisition of AMI in New Zealand, and the investment in Bohai Property Insurance Company in China.

APRA is currently reviewing the prudential framework and the capital standards for general insurers and life insurers. This will result in changes to Minimum Capital Requirement, which will become known as Prescribed Capital Amount (PCA). It is not possible for IAG to forecast the exact impact on the Group's future capital position until APRA issues the final prudential standards and provides additional guidance on the implementation of the new standards. For further information, see Sections 3.7 and 5.2.10.

(11) These instruments are eligible for recognition as Tier 1 Capital. A portion will be reclassified as Tier 2 Capital to the extent the amount on issue is in excess of APRA's Residual Tier 1 Capital limits.

(12) APRA currently has a limit of 15% for Innovative Tier 1 securities and a limit of 25% for all Residual Tier 1 securities (i.e. the aggregate of Innovative and Non-Innovative Residual Tier 1 securities). Currently RPS and RES are Innovative Tier 1 securities therefore subject to a 15% aggregate limit. As a consequence of replacing RPS with CPS (which as Non-Innovative Residual Tier 1 securities are not subject to the 15% limit) the full amount of CPS is included in Residual Tier 1 Capital. This increase in Tier 1 Capital allows proportionately more of RES which are currently included in Tier 2 Capital as a consequence of the 15% limit to be included in Tier 1 Capital such that the aggregate increase in Tier 1 Capital is $400 million, net of CPS issue costs.

SECTION 5

Investment risks

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5.2 Risks associated with IAG, the Group and the general insurance industry 48

SECTION 5
INVESTMENT RISKS

This Section describes some of the risks associated with an investment in CPS and in IAG.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and impact of the risk if it did occur. There is no guarantee or assurance that the importance of different risks will not change or other risks emerge.

Before applying for CPS, you should consider whether CPS are a suitable investment for you. There are risks associated with an investment in CPS and in IAG, many of which are outside the control of IAG and its Directors. These risks include those in this Section and other matters referred to in this Prospectus.

5.1 RISKS ASSOCIATED WITH INVESTING IN CPS

5.1.1 Market price of CPS

The market price of CPS may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions, interest rates, movements in foreign exchange rates, movements in the market price of Ordinary Shares or senior or subordinated debt, and factors that may affect IAG's financial performance and position. CPS may trade at a market price below the Issue Price. There is no guarantee that CPS will remain continuously quoted on ASX.

In recent years, markets have become more volatile. Volatility risk is the potential for fluctuations in the price of securities, sometimes markedly and over a short period. Investing in volatile conditions implies a greater level of volatility risk for investors than an investment in a more stable market.

You should carefully consider this additional volatility risk before deciding whether to make an investment in CPS.

The Ordinary Shares held as a result of any Conversion will, following Conversion, rank equally with existing Ordinary Shares. Accordingly, the ongoing value of any Ordinary Shares received upon Conversion will depend upon the market price of Ordinary Shares after the Mandatory Conversion Date or other date on which CPS are Converted. That market is also subject to the factors outlined above and may also be volatile.

5.1.2 Liquidity

Although IAG intends to have the CPS quoted on ASX, there is no guarantee that a liquid market will develop for CPS. The market for CPS may be less liquid than the market for Ordinary Shares or comparable securities issued by IAG or other entities and may be volatile. The market price of CPS is likely to fluctuate and, if CPS Holders wish to sell or otherwise transfer their CPS prior to Exchange they may be unable to do so at a price acceptable to them, or at all, if insufficient liquidity exists in the market for CPS.

CPS are expected to Convert into Ordinary Shares on 1 May 2019 (subject to certain conditions being satisfied) unless CPS are otherwise Exchanged on or before that date. Where CPS are Converted, there may be no liquid market for Ordinary Shares at the time of Conversion or the market for Ordinary Shares may be less liquid than that for comparable securities issued by other entities at the time of Conversion.

5.1.3 Fluctuation in Ordinary Share price

Upon Conversion, other than Conversion resulting from a Non-Viability Trigger Event (see Section 5.1.11), CPS Holders will receive $101.01 worth of Ordinary Shares per CPS (based on the VWAP during the 20 Business Days before the Mandatory Conversion Date or other date on which CPS are Converted). The market price of Ordinary Shares may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions and IAG's financial performance and position – see Section 5.1.1. As a result, the value of Ordinary Shares received upon Conversion may be greater than or less than $101.01 per CPS when they are issued or thereafter, and could be less than the Issue Price. In relation to Conversion on account of a Non-Viability Trigger Event – see further detail in Section 5.1.11.

5.1.4 Dividends may not be paid

There is a risk that Dividends will not be paid. The CPS Terms do not oblige IAG to pay Dividends.

The payment of Dividends is subject to the Dividend Payment Tests – see Section 2.3.7. The Dividend Payment Tests require, among other things, that the Directors, at their absolute discretion, resolve to pay a Dividend and that, unless APRA otherwise approves, the Group has sufficient profits as required by APRA (being referred to as Distributable Profits) available to pay the Dividend. There is a risk that one or more elements of the Dividend Payment Tests will not be satisfied, and there is therefore a risk that a Dividend may not be paid in full or at all.

The amount of Distributable Profits as at any Dividend Payment Date is calculated by taking the Group's after tax earnings, calculated in accordance with prudential reporting to APRA (determined before certain interest, dividends and distributions on Tier 1 Capital and Upper Tier 2 Capital securities), for the 12 month period that ended on 30 June or 31 December immediately before the relevant Dividend Payment Date, and subtracting from that amount the amount of dividends or other distributions paid or payable by the Group (at the relevant level) in the 12 months up to and including that date on Tier 1 Capital and Upper Tier 2 Capital securities.

Further, the payment of Dividends is, unless APRA otherwise approves, subject to IAG's capital ratios being above those required from time to time by APRA after the payment.

The CPS Terms contain no events of default and accordingly, failure to pay a Dividend when scheduled will not constitute an event of default. Further, in the event that IAG does not pay a Dividend when scheduled, a CPS Holder:

- has no right to apply for IAG to be wound up or placed in administration, or to cause a receiver or a receiver and manager to be appointed in respect of IAG merely on the grounds that IAG does not pay a Dividend when scheduled; and
- will have no right of set-off and no offsetting rights or claims on IAG.

Dividends are non-cumulative, and therefore if a Dividend is not paid CPS Holders will have no recourse whatsoever to payment from IAG and will not receive payment of those Dividends.

However, if IAG does not pay a Dividend in full on a Dividend Payment Date, then the Distribution Restriction applies to IAG unless the Dividend is paid in full within three Business Days of that date. However the Distribution Restriction is less extensive than the corresponding distribution restriction in IAG's other securities – see further detail in Section 5.1.17.

In addition, IAG may be prevented from paying a Dividend by the requirements of the Corporations Act that, in order to pay a Dividend, IAG's assets must exceed its liabilities by an amount sufficient for payment of the Dividend, that payment must be fair and reasonable to Shareholders and payment of the Dividend must not materially prejudice IAG's ability to pay its creditors.

IAG may also be prevented from paying Dividends by the terms of other securities if a dividend or other distribution has not been paid on those securities. If such a constraint applies, IAG may not be able to pay Dividends on CPS without the approval of the holders of those other securities.

Changes in regulations applicable to IAG (including the Australian Basel III Rules as they will apply to general insurance groups) may impose additional requirements which prevent IAG from paying a Dividend in additional circumstances.

5.1.5 Changes in Dividend Rate

The Dividend Rate is calculated for each Dividend Period by reference to the Bank Bill Rate, which is influenced by a number of factors and varies over time. The Dividend Rate will fluctuate (both increasing and decreasing) over time as a result of movements in the Bank Bill Rate – see Sections 2.3.2 and 2.3.3.

As the Dividend Rate fluctuates, there is a risk that it may become less attractive when compared to the rates of return available on comparable securities issued by IAG or other entities.

5.1.6 CPS are perpetual and Mandatory Conversion may not occur on the Scheduled Mandatory Conversion Date or at all

CPS are expected to Convert into Ordinary Shares on 1 May 2019 (subject to certain conditions being satisfied). However, there is a risk that Conversion will not occur because the Mandatory Conversion Conditions are not satisfied due to a large fall in the Ordinary Share price relative to the Issue Date VWAP, or where a Delisting Event applies. The Ordinary Share price may be affected by transactions affecting the share capital of IAG, such as rights issues, placements, returns of capital, certain buy-backs and other corporate actions. The Issue Date VWAP is adjusted only for transactions by way of the consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues of Ordinary Shares as described in clauses 7.5 and 7.6 of the CPS Terms and not for other transactions, including rights issues, placements returns of capital, buy-backs or special dividends. The CPS Terms do not limit the transactions which IAG may undertake with respect to its share capital and any such action may affect whether Conversion will occur and may adversely affect the position of CPS Holders.

If Mandatory Conversion does not occur on the Scheduled Mandatory Conversion Date, Mandatory Conversion would then occur on the next Dividend Payment Date on which all of the Mandatory Conversion Conditions are satisfied unless CPS are otherwise Exchanged on or before that date. If Mandatory Conversion does not occur on a possible Mandatory Conversion Date and CPS are not otherwise Exchanged, Dividends may continue to be paid on CPS, subject to the Dividend Payment Tests.

CPS are a perpetual instrument. If the Ordinary Share price deteriorates significantly and never recovers, it is possible that the Mandatory Conversion Conditions will never be satisfied and, if this occurs, unless CPS are otherwise Exchanged, CPS will never Convert.

5.1.7 Exchange and Exchange Method are at IAG's option

IAG may (subject to APRA's prior written approval) elect to Exchange some or all CPS on an Optional Exchange Date or on the occurrence of a Tax Event or a Regulatory Event and may elect to Exchange all (but not some) CPS after a Potential Acquisition Event. In addition, IAG must (subject to certain conditions) Exchange all CPS on the occurrence of an Acquisition Event. CPS Holders have no right to request or require an Exchange.

Any Exchange at IAG's option may occur on dates not previously contemplated by CPS Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which CPS Holders will be entitled to the benefit of the rights attaching to CPS (such as Dividends) is unknown.

Subject to certain conditions, IAG also has a discretion to elect which Exchange Method or combination of Exchange Methods will apply to an Exchange and where a combination of Exchange Methods is selected, to which CPS and CPS Holders the Exchange Method will apply. The method chosen by IAG may be disadvantageous to CPS Holders and may not coincide with their individual preference in terms of whether they receive Ordinary Shares or cash on the relevant date.

For example, if APRA approves an election by IAG to Redeem the CPS, CPS Holders will receive cash equal to $100 per CPS rather than Ordinary Shares and accordingly, they will not benefit from any subsequent increases in the Ordinary Share price after the Exchange occurs. In addition, where CPS Holders receive cash on Redemption, the rate of return at which they could reinvest their funds may be lower than the Dividend Rate at the time. Where CPS Holders receive Ordinary Shares on Conversion, they will have the same rights as other Ordinary Shareholders, which are different to the rights attaching to CPS.

5.1.8 Exchange on an Acquisition Event

The CPS are issued by IAG, which, as an ASX-listed company, may be affected by merger and acquisition activity, including the possibility of being acquired by, or merged with, another company or group of companies, potentially resulting in a change of control.

SECTION 5
INVESTMENT RISKS CONTINUED

Where this corporate activity constitutes an Acquisition Event, as defined in the CPS Terms, IAG is required to Exchange all CPS in accordance with clause 6 of the CPS Terms. IAG must, subject to clauses 6.2, 6.3 and 6.4 of the CPS Terms, give an Acquisition Exchange Notice in which it elects whether to Exchange by way of Redemption or Conversion or a combination of those methods. However, IAG is not permitted to elect Redemption as the method for Exchange unless the Acquisition Event has occurred on or after the fifth anniversary of the Issue Date, APRA's prior written approval has been obtained and IAG satisfies either of the following conditions:

- CPS the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality; or
- APRA is satisfied that the Group's capital position is well above its minimum capital requirements after IAG elects to Redeem CPS.

APRA is not obliged to give this approval and, depending on the facts and circumstances existing at the time of any Acquisition Event, may not do so.

5.1.9 Exchange by IAG is subject to certain events occurring
If IAG elects to Exchange the CPS by way of Conversion (other than where it is obliged to Convert) or Redemption, APRA's prior written approval is required. CPS Holders should not expect that APRA will give its approval to any Exchange.

The choice of Conversion as the Exchange Method is subject to the level of the Ordinary Share price on the second Business Day before the date on which an Exchange Notice is to be sent by IAG (or if trading in Ordinary Shares did not occur on that date, the Business Day prior to that date on which trading in Ordinary Shares occurred). If the VWAP on that date is less than or equal to the First Test Date Percentage of the Issue Date VWAP, IAG is not permitted to choose Conversion as the Exchange Method. Also, if a Delisting Event applies, IAG is not permitted to choose Conversion as the Exchange Method.

The conditions to Conversion on the Exchange Date are that the Second Mandatory Conversion Condition and the Third Mandatory Conversion Condition must both be satisfied in respect of the Exchange Date as if the Exchange Date were a possible Mandatory Conversion Date.

If the requirements for Conversion on the Exchange Date are not satisfied, IAG will notify CPS Holders and the Conversion will be deferred until the next Dividend Payment Date on which the requirements for Conversion would be satisfied if that Dividend Payment Date were a possible Mandatory Conversion Date.

The choice of Redemption as the Exchange Method is subject to the condition that CPS the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality, or that APRA is satisfied that the Group's capital position is well above its minimum capital requirements after IAG elects to Redeem CPS. IAG is not permitted to elect to Redeem CPS on account of an Acquisition Event or a Potential Acquisition Event unless the Acquisition Event or Potential Acquisition Event has occurred on or after the fifth anniversary of the Issue Date.

Where IAG has chosen to Exchange all CPS following a Potential Acquisition Event, the Exchange is subject to obtaining APRA's prior written approval. APRA is not obliged to give this approval and, depending on the facts and circumstances existing at the time of any Potential Acquisition Event, may not do so.

5.1.10 Conversion conditions
The only conditions to Conversion are, in the case of Mandatory Conversion, the Mandatory Conversion Conditions and, in the case of an Exchange at IAG's option or following an Acquisition Event, the conditions expressly applicable to such Conversion under clauses 5 and 6 of the CPS Terms. No other conditions will affect the Conversion except as expressly provided by the CPS Terms.

Although one condition to Conversion is that a Delisting Event does not apply, other events and conditions may affect the ability of CPS Holders to trade or dispose of the Ordinary Shares issued on Conversion e.g. the willingness or ability of ASX to accept the Ordinary Shares issued on Conversion for quotation or any practical issues which affect that quotation, any disruption to the market for the Ordinary Shares or to capital markets generally, the availability of purchasers for Ordinary Shares and any costs or practicalities associated with trading or disposing of Ordinary Shares at that time. Further, as outlined in Section 5.1.11, Conversion following a Non-Viability Trigger Event is not subject to any conditions.

5.1.11 Conversion on account of a Non-Viability Trigger Event
IAG must Convert CPS into Ordinary Shares if at any time a Non-Viability Trigger Event occurs. This could be at any time. Accordingly, any such Conversion on account of a Non-Viability Trigger Event may occur on dates not previously contemplated by CPS Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing.

A Non-Viability Trigger Event occurs if APRA provides a written determination that all (or some) CPS must be Converted either:

- as without that Conversion, IAG would, in the opinion of APRA, become non-viable; or
- as there is to occur a public sector injection of capital (or equivalent capital support) in respect of IAG without which, in the opinion of APRA, IAG would become non-viable.

Non-Viability Trigger Event
If APRA makes a determination that only some CPS are required to be Converted, IAG must endeavour to treat CPS Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels of CPS and other logistical considerations. Accordingly, should a Non-Viability Trigger Event occur and APRA make a determination that only some CPS be Converted not all CPS Holders may have their CPS Converted to Ordinary Shares.

APRA has not provided guidance as to how it would determine non-viability. Non-viability could be expected to include serious impairment of IAG's financial position and insolvency; however, it is possible that APRA's definition of non-viable may not necessarily be constrained to solvency or capital measures and APRA's position on these matters may change over time. As the occurrence of a Non-Viability Trigger Event is at the discretion of APRA, there can be no assurance given as to the factors and circumstances that might give rise to this event.

Non-viability may be significantly impacted by a number of factors, including factors which affect the business, operation and financial condition of IAG. For instance, systemic and non-systemic macro-economic, environmental and operational factors, globally and in Australia, New Zealand, Asia and the United Kingdom may affect the viability of IAG.

On the occurrence of a Non-Viability Trigger Event, APRA may determine that the CPS must be Converted into IAG Ordinary Shares, however other equally ranking IAG securities need not be converted. This may result in the CPS investment effectively ranking lower in IAG's capital structure than other previously equal ranking securities.

Effect of a Non-Viability Trigger Event

If a Non-Viability Trigger Event occurs, IAG must Convert all (or some) CPS on issue (as specified in APRA's determination) into the Conversion Number of Ordinary Shares. Conversion on the occurrence of a Non-Viability Trigger Event is not subject to the Mandatory Conversion Conditions being satisfied. The number of Ordinary Shares a CPS Holder will receive on Conversion following a Non-Viability Trigger Event is calculated in accordance with the Conversion Number formula which provides for a calculation based on a discounted five Business Day VWAP but cannot be more than the Maximum Conversion Number. Accordingly, this may result in a CPS Holder receiving significantly less than $101.01 worth of Ordinary Shares per CPS and suffering loss as a result. This is because:

- the number of Ordinary Shares is limited to the Maximum Conversion Number and this number of Ordinary Shares may have a value of less that $101.01;
- where the number of shares is calculated by reference to the five Business Day VWAP, the VWAP during the five Business Days before the Non-Viability Conversion Date may differ from the Ordinary Share price on or after that date. The Ordinary Shares may not be listed or may not be able to be sold at prices representing their value based on the VWAP. In particular, if Ordinary Shares are suspended from trading during the VWAP Period VWAP prices may be based wholly or partly on trading days which occurred before the Non-Viability Conversion Date; and
- as noted in Section 2.4.7, the Maximum Conversion Number may be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares. However, no adjustment will be made to it on account of other transactions which may affect the price of Ordinary Shares, including for example rights issues, returns of capital, buy-backs or special dividends. The CPS Terms do not limit the transactions that IAG may undertake with respect to its share capital and any such action may increase the risk that CPS Holders receive only the Maximum Conversion Number and so may adversely affect the position of CPS Holders.

If on a Non-Viability Conversion Date a Delisting Event is subsisting and since the end of the period for determining VWAP, IAG has publicly announced an issue of Ordinary Shares at a price less than the VWAP ("**Latest Equity Issue Price**"), the "99% x VWAP" in the formula for determining the Conversion Number will be replaced by the Latest Equity Issue Price. If there is no Latest Equity Issue Price the Conversion Number will be determined by reference to the five Business Day VWAP, which will reflect prices before the Delisting Event. The Ordinary Shares may not be able to be sold at prices representing their value based on that price. Accordingly, this may result in a CPS Holder receiving significantly less than $101.01 worth of Ordinary Shares per CPS.

Inability Event

If on a Non-Viability Conversion Date IAG is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting CPS which would otherwise be Converted (an "**Inability Event**") (unless before the date for Conversion, an order is made by a court or an effective resolution is passed for the winding-up of IAG), CPS will be Written Down on the Non-Viability Conversion Date. This means that the rights of a CPS Holder in respect of dividends and return of capital in any subsequent winding-up of IAG are broadly equivalent to the rights in respect of dividends and return of capital of the holder of the number of Ordinary Shares the CPS Holder would have held if the Conversion had occurred. However the CPS in these circumstances are not identical to Ordinary Shares, do not have the voting rights of Ordinary Shares and may not be able to be sold at the same price as the equivalent number of Ordinary Shares or at all.

The laws under which an Inability Event may arise include laws relating to the insolvency, winding-up or other external administration of IAG. Those laws and the grounds on which a court or government authority may make orders preventing the Conversion of CPS may change and the change may be adverse to the interests of CPS Holders.

If after CPS are Written Down (as described above) an Inability Event ceases to apply to IAG (for example if IAG ceases to be subject to external administration), as soon as reasonably practicable after that occurs IAG will convert the CPS into the Fixed Conversion Number of Ordinary Shares. In those circumstances, the rights of a CPS Holder are not written back to what they were before they were Written Down. In such circumstances, the price may not be reflective of the underlying value of IAG Ordinary Shares. Accordingly, this may result in a CPS Holder receiving significantly less than $101.01 worth of Ordinary Shares per CPS and suffering a loss as a result.

5.1.12 Restrictions on rights and ranking in a winding-up of IAG

CPS are issued by IAG under the CPS Terms. A CPS Holder has no claim on IAG in respect of CPS except as provided in the CPS Terms. CPS are unsecured.

In the event of a winding-up of IAG, and assuming CPS have not been Exchanged, CPS Holders will be entitled to claim for the Liquidation Sum. This is an amount for each CPS equal to $100 in respect of its Issue Price and any Dividend resolved by the Directors to be paid but unpaid at the commencement of the winding-up of IAG.

However, where CPS are required to be Converted on account of a Non-Viability Trigger Event and IAG is prevented by applicable law or order of any court or the action of any government authority or any other reason from Converting CPS (except where, before the Non-Viability Conversion Date, an order has been made by a court or an effective resolution is passed for the winding-up of IAG) and, accordingly, CPS have been Written Down (as described in Section 2.6.5 and clause 7.13 of the CPS Terms) and not subsequently converted to Ordinary Shares as described in that section, the Liquidation Sum will be equal to the amount which would have been paid in respect of the CPS out of the surplus available to shareholders in a winding-up as if the CPS were the Conversion Number of Ordinary Shares, that Conversion Number (the "**Fixed Conversion Number**") being finally determined as if the CPS had Converted on the Non-Viability Conversion Date (and in any case not exceeding the Maximum Conversion Number).

SECTION 5
INVESTMENT RISKS CONTINUED

The claim for the Liquidation Sum ranks ahead of Ordinary Shares, equally with RPS and RES Preference Shares (if issued) and other securities ranking equally with CPS, but behind all creditors of IAG.

Claims in respect of CPS are subordinated, in and notwithstanding a winding-up of IAG, so as to rank as preference shares as set out in the CPS Terms.

If there is a shortfall of funds on a winding-up of IAG to pay all amounts ranking senior to and equally with CPS, CPS Holders will not receive all or some of the Liquidation Sum.

Although the CPS may pay a higher rate of dividend than comparable instruments which are not subordinated, there is a significant risk that a CPS Holder will lose all or some of their investment should IAG become insolvent.

5.1.13 Future issues or redemptions of securities by IAG

CPS do not in any way restrict IAG from issuing further securities or from incurring further indebtedness. IAG's obligations under CPS rank subordinate and junior in a winding-up to IAG's obligations to holders of senior ranking securities and instruments, and all creditors, including subordinated creditors (other than creditors whose claims are subordinated to rank equally with or behind CPS). Accordingly, IAG's obligations under CPS will not be satisfied unless it can satisfy in full all of its other obligations ranking senior to CPS.

IAG may in the future issue securities that:

- rank for dividends or payments of capital (including on the winding-up of IAG) equal with, behind or ahead of CPS;
- have the same or different dividend, interest or distribution rates as those for CPS;
- have payment tests and distribution restrictions or other covenants which affect CPS (including by restricting circumstances in which Dividends can be paid or CPS can be Redeemed); or
- have the same or different terms and conditions as CPS.

IAG may incur further indebtedness and may issue further securities including further Tier 1 Capital securities before, during or after the issue of CPS.

An investment in CPS carries no right to participate in any future issue of securities (whether equity, Tier 1 Capital, subordinated or senior debt or otherwise) by IAG.

No prediction can be made as to the effect, if any, which the future issue of securities by IAG may have on the market price or liquidity of CPS or of the likelihood of IAG making payments on CPS.

Similarly, CPS do not restrict IAG from redeeming or otherwise repaying its other existing securities, including other existing securities which rank equally with or junior to CPS (other than to the extent the Distribution Restrictions applies or insofar as CPS Holders have a right to vote in respect of a buy-back or reduction of capital on a security in the form of a share). Additionally, IAG may Redeem CPS on the occurrence of a Regulatory Event.

IAG may redeem or otherwise repay existing securities including existing equal or junior ranking Tier 1 Capital securities before, during or after the issue of CPS. An investment in CPS carries no right to be redeemed or otherwise repaid at the same time as IAG redeems or otherwise repays other securities (whether equity, Tier 1 Capital, subordinated or senior debt or otherwise).

No prediction can be made as to the effect, if any, which the future redemption or repayment by IAG of existing securities may have on the market price or liquidity of CPS or on IAG's financial position or performance.

5.1.14 Exposure to the Group's financial performance and position

If the Group's financial performance or position declines, or if market participants anticipate that it may decline, an investment in CPS could decline in value even if CPS have not been Converted. Accordingly, when you evaluate whether to invest in CPS you should carefully evaluate the investment risks associated with an investment in IAG – see Section 5.2.

5.1.15 Dividends may not be fully franked

IAG expects Dividends to be fully franked. However, there is no guarantee that IAG will have sufficient franking credits in the future to fully frank Dividends.

If any Dividend payment is not fully franked, then CPS Holders will be entitled to an additional cash payment, reflecting the fact that the Dividend payment has been paid out of profits which have not been subject to tax. This payment is subject to the Dividend Payment Tests.

The value and availability of franking credits to a CPS Holder will differ depending on the CPS Holder's particular tax circumstances. CPS Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Dividend. CPS Holders should also be aware that the ability to use the franking credits, either as an offset to a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each CPS Holder. CPS Holders should also refer to the Australian taxation summary in Section 8 and seek professional advice in relation to their tax position.

5.1.16 Distributions on CPS may be restricted by the terms of other similar securities

The terms of IAG's other outstanding and future securities could limit the Group's ability to make payments on CPS. If IAG does not make payments on other securities, payments may not be permitted to be made in respect of CPS.

The dividend payment dates on IAG's other securities may differ from the Dividend Payment Dates for CPS. Further, the payment tests applying to other securities (whether currently outstanding or issued in the future) may be different to the Dividend Payment Tests. Accordingly, IAG may not be permitted to make a payment on another security in circumstances where it would otherwise be permitted to make a payment on CPS. In these circumstances, the distribution restrictions on the other securities may then apply, preventing IAG from making a payment on CPS. Similarly, IAG may not be permitted to make a payment on CPS in circumstances where the payment tests on other securities have been passed.

If distribution restrictions for another security apply to payments on CPS, IAG may not be able to pay Dividends when scheduled to do so under the CPS Terms and may not be able to Redeem CPS. IAG is not restricted from issuing other securities of this kind or agreeing in the terms of issue of other securities additional or different payment tests or distribution restrictions – see Section 2.3.

5.1.17 The Distribution Restriction in CPS is less restrictive than the restriction in IAG's other securities

The Distribution Restriction is less extensive than the corresponding distribution restriction in IAG's other securities. It applies only to restrict distributions in respect of Ordinary Shares and not to distributions in respect of securities ranking equally with or junior to CPS (other than Ordinary Shares). Accordingly, a failure to make a scheduled payment on CPS may not restrict the making of payments in respect of instruments ranking equally with CPS. Further the restriction in CPS only applies until the next Dividend Payment Date. The dates for distribution with respect to Ordinary Shares are determined by IAG in its discretion and do not bear a fixed relationship to the Dividend Payment Dates for CPS. Accordingly, as soon as the Distribution Restriction ceases to apply (as will be the case if the next scheduled Dividend on CPS is paid) IAG will not be restricted from making a distribution on its Ordinary Shares.

5.1.18 Changes to credit ratings

IAG's cost of funds, margins, access to capital markets and competitive position and other aspects of its performance may be affected by its credit ratings (including any long-term credit ratings or the ratings assigned to any class of its securities). Credit rating agencies may withdraw, revise or suspend credit ratings or change the methodology by which securities are rated. Even though CPS will not be rated, such changes could adversely affect the market price, liquidity and performance of CPS or Ordinary Shares received on Conversion.

5.1.19 Regulatory classification and prudential supervision

CPS are eligible Residual Tier 1 Capital which qualify as regulatory capital of the Group for APRA purposes.

Further, APRA has not yet determined the final form of prudential rules applied to entities regulated by APRA resulting from the Basel III Consultation Papers. Should CPS not comply with those rules when finalised, APRA has confirmed that CPS will be eligible for inclusion as Additional Tier 1 Capital under transitional arrangements from 1 January 2013.

However, if APRA subsequently determines that some or all CPS do not qualify as Residual Tier 1 Capital (including as a result of the Australian Basel III Rules, except where the reason IAG is not entitled to treat some or all of the CPS as Residual Tier 1 Capital is because IAG has exceeded a limit on the recognition of Residual Tier 1 Capital which was in effect on the Issue Date, including a limit arising on a given date under the Basel III Consultation Papers which is known as at the Issue Date), IAG may decide that a Regulatory Event has occurred. IAG may then elect, at its option to Exchange (i.e. to Redeem or Convert) all or some CPS on issue (subject to APRA's prior written approval).

Any such Exchange at IAG's option may occur on dates not previously contemplated by CPS Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which CPS Holders will be entitled to the benefit of the rights attaching to CPS (such as Dividends) is unknown.

The Exchange Method chosen by IAG may also be disadvantageous to CPS Holders and may not coincide with their individual preference in terms of whether they receive Ordinary Shares or cash on the relevant date.

5.1.20 Australian tax consequences

A general outline of the tax consequences of investing in CPS for certain potential investors who are Australian residents for tax purposes is set out in the Australian taxation summary in Section 8. This discussion is in general terms and is not intended to provide specific advice addressing the circumstances of any particular potential investor.

Accordingly, potential investors should seek independent advice concerning their own individual tax position.

If a change is made in Australian tax law, or an administrative pronouncement or ruling, and that change leads to a more than insubstantial risk that:

- there would be a significant increase in IAG's costs in relation to CPS being on issue;
- a dividend on CPS would not be frankable or would give rise to an additional franking debit; or
- franking credits would not be available to Australian tax resident CPS Holders generally,

IAG is entitled to Exchange all or some CPS (subject to APRA's prior written approval where required) – see Section 2.5.

If the corporate tax rate was to change, the cash amount of Dividends and the amount of any franking credit would change.

5.1.21 Accounting standards

A change in accounting standards by either the International Accounting Standards Board or Australian Accounting Standards Board may affect the reported earnings and financial position of IAG in future financial periods. This may adversely affect the ability of IAG to pay Dividends.

5.1.22 Shareholding limits

The *Financial Sector (Shareholdings) Act 1998* (Cth) restricts ownership by people (together with their associates) of general insurer holding companies, such as IAG, to a 15% stake. A shareholder may apply to the Australian Treasurer to extend their ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% is in the national interest.

SECTION 5
INVESTMENT RISKS CONTINUED

Mergers, acquisitions and divestments of Australian public companies listed on ASX (such as IAG) are regulated by detailed and comprehensive legislation and the rules and regulations of ASX. These provisions include restrictions on the acquisition and sale of relevant interests in certain shares in an Australian listed company under the Corporations Act and a requirement that acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer. In addition, Australian law also regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market.

CPS Holders should take care to ensure that by acquiring any CPS (taking into account any Ordinary Shares into which they may Convert), CPS Holders do not breach any applicable restrictions on ownership.

5.1.23 Amendment of CPS Terms

IAG may with APRA's prior written approval in certain circumstances amend the CPS Terms without the approval of CPS Holders. These include necessary or desirable amendments to dates and time periods to facilitate any Mandatory Conversion, Non-Viability Event Conversion or Exchange or any change which IAG considers not likely to be materially prejudicial to the interests of CPS Holders as a whole. IAG may also with APRA's prior written approval amend the CPS Terms if the amendment has been approved by a Special Resolution. Amendments under these powers are binding on all CPS Holders despite the fact that a CPS Holder may not agree with the amendment.

5.2 RISKS ASSOCIATED WITH IAG, THE GROUP AND THE GENERAL INSURANCE INDUSTRY

Set out below are investment risks associated with IAG, the Group and the general insurance industry. These are relevant to an investment in CPS as the value of your investment will depend on the financial performance and position of IAG and the Group.

5.2.1 Catastrophes and latent risks

As a general insurer, the Group is subject to the risk of large-scale claims arising out of catastrophes, such as the recent New South Wales and Queensland floods, which may have a significant impact on its earnings and financial condition. Catastrophes may include cyclones, earthquakes, tsunamis, wind, hail, floods, bushfire, volcanic eruptions and explosions, which are inherently unpredictable with regard to incidence and severity.

Certain product classes offered by the Group may also be subject to the emergence of new types of latent claims. While such uncertainties are considered by the Group when setting the risk margin for those product classes, and in determining policy cover, should these claims eventuate, they could have a material adverse impact on the Group's financial performance and position. Reinsurance is used to reduce the impact of these claims.

5.2.2 Reinsurance

The Group enters into a significant number of reinsurance contracts to limit its risk exposure to any one claim, class of business or occurrence of specific events and/or series of events. There can be no assurance that the Group's current reinsurance coverage is adequate, that it matches the underlying risks assumed, that reinsurance will be available at adequate rates or levels in the future or that increases in reinsurance costs will be recovered through premium rates. Recent catastrophes both in Australia and New Zealand as well as globally have led to increases in reinsurance rates, and changes in terms and availability.

The limit of catastrophe cover purchased by the Group as at 1 January 2012 was $4.7 billion, with an event retention of approximately $150 million. If the extent of insurance loss exceeds the upper limit of cover, the amount in excess of the limit, together with the event retention, would need to be met by the Group.

The Group is exposed to the credit risk that its reinsurers may default on their obligation to pay claims. In addition, the Group may take a considerable period to collect on reinsurance receivables, and reinsurers may dispute its claims, even if valid. Despite reinsurance, the Group is primarily liable to policyholders, and so a failure by a reinsurer to make payment for any reason could adversely affect the Group's financial performance and position.

A detailed description of the Group's reinsurance arrangements can be found in Section 3 on page 33 and in Section 4 on page 39.

5.2.3 Competition

The Group's position as a leading general insurer in Australia and New Zealand is an important factor in it being able to achieve strong and sustainable insurance margins. Further industry consolidation could result in competitors improving their scale, increasing pressure on the Group's ability to maintain its insurance margins. Competitors, existing and new, developing superior business models could increase pressure on the Group's ability to maintain its market share and/or its insurance margins. The Group could lose market share or be forced to reduce prices in order to compete effectively, if industry participants engage in aggressive growth strategies or severe price discounting.

There is significant competition within the general insurance industry in Australia, New Zealand, Asia and the United Kingdom. Furthermore, new entrants to the industry may emerge in one or more of those markets, increasing the competitive pressure on the Group. This pressure could adversely affect the Group's underwriting results, market share and financial performance and position.

5.2.4 Investment performance

Investment performance can significantly affect the Group's financial performance and position. The Group's investment portfolios are exposed in various degrees to financial markets and volatility in financial markets could lead to poor investment performance.

IAG invests in a range of different funds and markets and accordingly, is exposed to risk and volatility in those markets generally and in the securities and other assets in which it invests. Those risks include, but are not limited to:

- credit risks from counterparty or issuer default;
- market risks that the value of an investment portfolio will decrease, including as a result of fluctuations in share prices, interest rates, exchange rates or commodity prices;
- liquidity risk, including that assets cannot be sold without a significant impairment in value; and
- hedging risk.

Such risks can be heightened during periods of high volatility and market disruption, such as occurred during the global financial crisis.

5.2.5 Market position
The Group's business is concentrated in Australia, New Zealand and the United Kingdom, which respectively accounted for 79%, 12% and 7% of reported GWP for the half year ended 31 December 2011. This means the Group's performance is largely dependent on the insurance sector performance in these countries. As outlined in Section 3.5.1, the Group aspires to grow in Australia, New Zealand and Asia. The results of such a strategy are inherently uncertain and carry risks that the expected profitability will not materialise.

5.2.6 Global market and economic environment
The financial performance of the Group is significantly affected by changes in investment markets and economic conditions both globally and in Australia, New Zealand, Asia and the United Kingdom, being the primary places in which the Group conducts business. These changes may influence the performance of those businesses or the value of the Group's investment portfolio. Such changes may also influence the operating margins of the Group and its businesses and the demand for the Group's financial products and services.

5.2.7 Uncertainty of future liabilities
The Group maintains liabilities for future policy benefits and unpaid claims in its general insurance business. The calculation of policy liabilities depends on estimates of expected future revenue and expenses. These estimates are based on actuarial and statistical projections made on the basis of the facts and circumstances known at a given time, estimates of likely future trends and assumptions about future investment returns, expenses and inflation rates. Although the Group maintains assets in excess of policy liabilities based on best estimate assumptions, actual results and conditions may be different from those assumed, due to deterioration in persistency or claims, natural disasters or worsening general economic conditions.

As a result of the inherent uncertainties in assessing policy liabilities, there can be no certainty that the ultimate costs will not materially exceed those supported by the amounts of the Group's estimated liabilities. Any differences may result in a material adverse impact on the financial performance and position and level of capital of the Group.

5.2.8 Adverse foreign exchange rate movements
Foreign exchange risk is the risk of the Group sustaining loss through adverse movements in exchange rates. Such losses can impact the Group's financial position and performance and the level of capital supporting the Group's businesses. From an operational perspective, the Group faces exposure to foreign exchange risks through direct foreign income and expenses, the settlement of foreign currency denominated assets and liabilities and the translation of the net investment and earnings of certain subsidiaries. Foreign exchange losses can also impact the Group's investment portfolio, which in turn can affect the Group's reputation, asset values, financial performance and position. The Group has in place a policy to specifically manage its foreign exchange risk.

5.2.9 Structural subordination
IAG is a holding company which owns or holds interests in a group of insurance companies in Australia, New Zealand, Asia and the United Kingdom. In the event a subsidiary is wound up, the claims of IAG would be limited to the net assets (if any) of that subsidiary after all liabilities, including to policyholders, have been discharged or provided for.

In addition, IAG is reliant on the continued receipt of dividends or other funding from its subsidiaries to make payments on its securities. The ability of IAG's subsidiaries to pay dividends or to otherwise make funds available to IAG may in certain circumstances be subject to regulatory, contractual or legal restrictions.

5.2.10 Changes in government policy, regulation or legislation
The general insurance industry is subject to extensive legislation, regulation and supervision by federal and state regulatory organisations, including APRA and the Reserve Bank of New Zealand. Insurance-specific regulation and supervision are primarily directed to the benefit of policyholders and not to holders of debt instruments issued by the Group. Several government and agency inquiries arising from recent natural perils and weather related events have been undertaken or are currently underway in Australia and New Zealand, and APRA is currently reviewing its capital standards for both life insurers and general insurers.

Whilst the Group has made submissions to such inquiries and reviews, the outcomes and specific consequences of the outcomes on the Group are currently uncertain. Any future legislation and regulatory change may affect the general insurance and financial services industry and may adversely affect the Group's profitability, financial position and capital ratios.

5.2.11 Mergers, acquisitions and divestments
The Group regularly examines its portfolio of businesses and a range of corporate and other opportunities with a view to pursuing merger, acquisition or divestment activities which are designed to improve its strategic and/or market position and performance over the medium to long term. Any merger, acquisition or divestment activities which are pursued could, for a variety of reasons, have a material impact on the financial performance and position of the Group including diversion of management resources, dilution of focused effort or loss on divestment.

Any acquisitions may require assimilation of new operations and new personnel and may cause dilution of the Group's management resources. Changes in ownership and management may result in impairment of relationships with employees and customers of the acquired businesses. Depending on the type of transaction, it could take a substantial period of time for the Group to realise the financial benefits of the transaction, if any. During the period immediately following this type of transaction, the Group's operating results may be adversely affected.

SECTION 5
INVESTMENT RISKS CONTINUED

As a potential target in any future merger or acquisition activity, potentially resulting in a change of control transaction, the issues identified above may also be relevant to the Group. In particular, some of the commercial contracts, joint ventures, partnerships or alliances to which IAG or its subsidiaries are a party, contain change of control clauses which may enable one or more parties to those contracts to terminate or vary the terms of the contracts upon a change of control. For a discussion of the consequences of an Acquisition Event under CPS, see Section 5.1.8.

Where the Group decides to divest a business or asset, this may involve a loss against book value, particularly of any goodwill or other intangibles.

The Group's failure to adequately manage the risks associated with any mergers, acquisitions or divestments could have a material adverse effect on its financial performance or position.

5.2.12 Litigation and regulatory proceedings
IAG and the Group, like all entities in the insurance or finance sectors, are exposed to the risk of litigation and/or regulatory proceedings brought by or on behalf of policyholders, reinsurers, government agencies or other potential claimants. While there are no material legal proceedings that are current or known to be threatened against the Group, there can be no assurance that significant litigation will not arise in the future and that the outcome of legal proceedings from time to time will not have a material adverse effect on the Group's business, financial performance or position.

In addition, the Group, in the ordinary course of business, is regularly involved in legal proceedings relating to policies underwritten by entities within the Group or arising from its operations generally.

5.2.13 Operational factors
Whilst the Group has management and operational risk practices, its profitability will continue to be subject to a variety of strategic and business decisions (including acquisitions/divestments) and operational risks such as: fraud and other dishonest activities; management practices; workplace safety; project and change management; compliance; business continuity and crisis management; key person risk; information and systems integrity; and outsourcing.

SECTION 6

About the Reinvestment Offer

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SECTION 6
ABOUT THE REINVESTMENT OFFER

This Section provides information on IAG's invitation to Eligible RPS Holders to reinvest their RPS in CPS and the options available to RPS holders.

6.1 OVERVIEW

6.1.1 What are RPS?

RPS are reset preference shares issued by IAG in 2002 (as amended in 2007) that trade on ASX under code "IAGPA".

6.1.2 Are RPS being bought back or redeemed?

At or around the date of this Prospectus, IAG will give RPS holders an RPS exchange notice to buy back RPS for their face value of $100 each on 15 June 2012.

6.1.3 What is the Reinvestment Offer?

Eligible RPS Holders have the opportunity to reinvest their RPS in CPS.

Under the Reinvestment Offer, Eligible RPS Holders may elect for some or all of their RPS registered on 16 March 2012 to be bought back early for $100 each on 1 May 2012 and have the buy-back price (i.e. $100 per RPS) applied to the Application Payment for CPS.

Eligible RPS Holders will not be required to make a separate Application Payment to the extent that RPS will be reinvested directly in CPS. However, if more CPS than the number of RPS registered in your name on 16 March 2012 are applied for, then an Application Payment in respect of the additional CPS applied for will be necessary.

If you sell part of your RPS holding prior to the Closing Date for the Reinvestment Offer on 19 April 2012, your application to reinvest your RPS will be adjusted down accordingly.

Once you have submitted an application to reinvest your RPS, you will not be able to successfully deal with those RPS until those RPS are released from the holding lock which is placed on them. The holding lock will be released from those RPS not successfully reinvested into CPS as soon as practicable after the Issue Date for the Offer.

Eligible RPS Holders will receive a copy of this Prospectus with a personalised Application Form.

Eligible RPS Holders have a number of other options, in addition to reinvesting RPS in CPS, which are set out in further detail in Section 6.3.1.

6.1.4 What is the purpose of the Reinvestment Offer?

Under the RPS terms, RPS have an upcoming Reset Date on 15 June 2012, on which date IAG has the option to do nothing, or either convert RPS into Ordinary Shares or to buy back, cancel or redeem RPS for their face value of $100. The Reinvestment Offer will enable IAG to refinance RPS as well as offer Eligible RPS Holders the opportunity to reinvest in CPS.

6.1.5 Am I eligible to participate in the Reinvestment Offer?

To participate in the Reinvestment Offer, you must have been a registered holder of RPS on 16 March 2012 and shown on the RPS register as having an address in Australia, and must not be in the United States or acting as a nominee for a person in the United States.

6.1.6 If I elect to participate in the Reinvestment Offer, what dividends will I receive on RPS?

If you are an Eligible RPS Holder and you elect for some or all of the RPS registered in your name on 16 March 2012 to be reinvested in CPS, you will receive a Pro Rata Dividend on the Reinvested RPS. This is because Reinvested RPS will be bought back earlier than the remaining RPS.

The Pro Rata Dividend will be paid on the Reinvested RPS Buy-back Date, 1 May 2012, for the period from (and including) 15 December 2011 to (but excluding) the Reinvested RPS Buy-back Date. The Pro Rata Dividend is expected to be $2.1286 per Reinvested RPS and is expected to be fully franked.

You will not receive a Pro Rata Dividend on any RPS that you do not reinvest in CPS. A final franked dividend of $2.8227 on RPS is expected to be paid on 15 June 2012, in accordance with the RPS terms.

6.1.7 Can I elect to reinvest the Pro Rata Dividend in CPS?

No. The Pro Rata Dividend will be paid to Eligible RPS Holders in respect of their Reinvested RPS via direct credit or cheque on the Reinvested RPS Buy-back Date, in accordance with your existing RPS payment instructions.

6.1.8 Will I receive a priority allocation of CPS?

If you are an Eligible RPS Holder and you apply under the Reinvestment Offer, you will receive a priority allocation of CPS applied for, over General Applicants, if there is excess demand for CPS.

6.2 WHAT IS THE DIFFERENCE BETWEEN RPS AND CPS?

A comparison of the key features of CPS and RPS is set out in summary form below. These comparisons are not intended to be exhaustive.

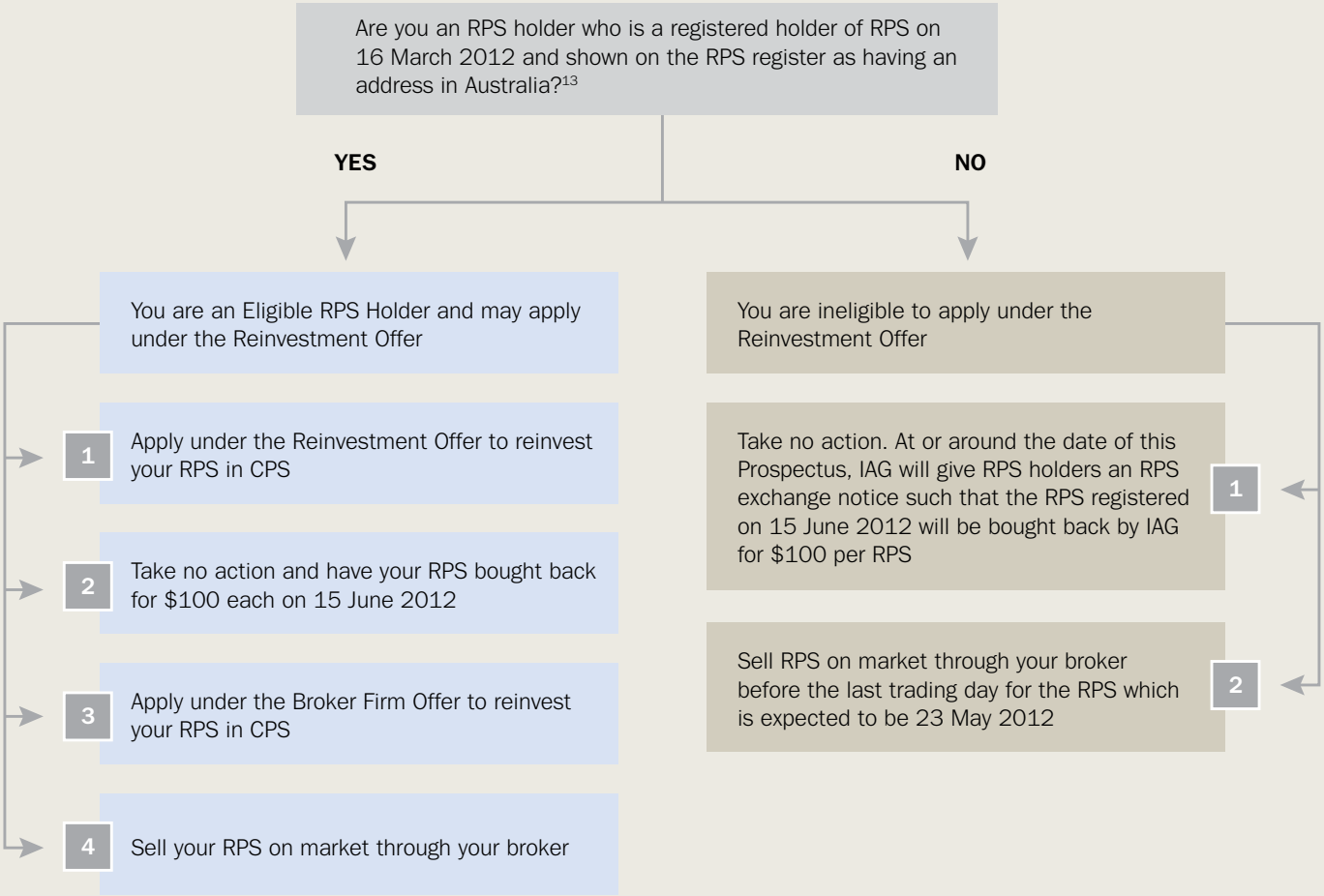
	CPS	RPS
Legal form	Preference share	Reset preference share
Issuer	IAG	IAG
ASX Code	Expected to trade under "IAGPC"	IAGPA
Issue Price	$100 per CPS	$100 per RPS
Amount to be issued/currently on issue	$350 million with the ability to raise more or less	$350 million
Margin	4.00%	1.10%
Nature of dividends	Floating rate semi-annual, frankable, preferred, discretionary, non-cumulative, subject to Dividend Payment Tests	Fixed rate (unless reset) semi-annual, frankable, preferred, discretionary, non-cumulative, subject to certain payment tests
Rights if Dividend is not fully franked	Gross up	Gross up
Payment tests for dividends	The Directors' discretion, IAG not becoming or likely to become insolvent, the dividend not exceeding Distributable Profits (unless APRA consents), the payment not resulting in non-compliance with APRA's capital adequacy guidelines (unless APRA consents) and no APRA objection	The Directors' discretion, APRA not objecting, IAG having profits available for payment of a dividend, the payment not resulting in non-compliance with APRA's capital adequacy guidelines and the amount of the dividend not exceeding Group after tax profits for the last financial year minus dividends paid in the current year except where the dividend is reinvested in additional securities under a dividend reinvestment plan
Dividend restriction if dividends not paid	IAG must, unless approved by special resolution, not resolve to pay or pay a dividend or distribution on Ordinary Shares or buy back or reduce the capital on Ordinary Shares until and including the next Dividend Payment Date, unless the dividend is paid in full within three Business Days	IAG may not, without a special resolution of RPS holders, declare or pay a dividend or make any distribution on share capital over which RPS rank in priority for payment of profits or redeem, reduce, cancel or acquire for any consideration any share capital other than an RPS, unless two consecutive RPS dividends have been paid in full or an optional amount equal to the two preceding dividends has been paid or all RPS have ceased to exist
Mandatory Conversion	On the Mandatory Conversion Date, subject to the Mandatory Conversion Conditions being satisfied, CPS Convert into a variable number of Ordinary Shares up to a Maximum Conversion Number	None
Mandatory Conversion Date	1 May 2019, or the first Dividend Payment Date after that on which the Mandatory Conversion Conditions are satisfied	None
Conversion discount	1.00%	2.50% (unless conversion is requested by a holder on a reset date)
Non-Viability Trigger Event	This is a new feature required by APRA prudential regulation. This feature is further described in Section 2.6 and see also Section 5.1.11	None
Exchange	At IAG's election, all or some on an Optional Exchange Date, following a Tax Event or Regulatory Event or all on an Exchange Date following a Potential Acquisition Event Subject to conditions, all CPS must be Exchanged following an Acquisition Event CPS Holders have no right to request an Exchange	By IAG, at its election, all or some RPS on a reset date, or all RPS following a tax or regulatory event, or certain takeovers or schemes of arrangement By a holder, at its election, all or some RPS on a reset date or following a trigger event
Exchange method	Conversion, Redemption or a combination of Conversion and Redemption	Conversion or redemption or in the case of holder initiated exchange IAG may also elect to resell RPS for $100 per RPS to a third party

SECTION 6
ABOUT THE REINVESTMENT OFFER CONTINUED

	CPS	RPS
Ranking for dividends and in a winding-up	Rank ahead of Ordinary Shares, equally with RPS, the claims of holders of RES and the RES Preference Shares (if issued) and other securities ranking equally with CPS, but behind all creditors of IAG Return in a winding-up may be adversely affected on account of a Non-Viability Trigger Event	Rank ahead of Ordinary Shares, equally with CPS, the claims of holders of RES and the RES Preference Shares (if issued) and other securities ranking equally with RPS, but behind all creditors of IAG
Voting rights	No right to vote at general meetings of holders of Ordinary Shares, except in limited circumstances	No right to vote at general meetings of holders of Ordinary Shares, except in limited circumstances
Capital classification on issue	Residual Tier 1 Capital	Residual Tier 1 Capital
Issue Date	1 May 2012	11 June 2002

6.3 WHAT ARE THE OPTIONS AVAILABLE TO RPS HOLDERS?

If you are an RPS holder, your ability to participate in the Reinvestment Offer is dependent on whether you qualify as an Eligible RPS Holder. To determine whether you qualify as an Eligible RPS Holder and the options available to both Eligible RPS Holders and ineligible RPS holders, refer to the diagram below. For further information, see Sections 6.3.1 and 6.3.2.



If you are an Eligible RPS Holder and elect option 1 or 3 you must hold the required number of RPS on 19 April 2012. See Sections 1 and 7 for further information.

(13) RPS holders must also not be in the United States or acting as a nominee for a person in the United States to be eligible to apply under the Reinvestment Offer.

6.3.1 What are the options available to Eligible RPS Holders?

OPTION	WHAT SHOULD ELIGIBLE RPS HOLDERS DO?
Option 1 – apply under the Reinvestment Offer for your RPS to be reinvested in CPS	– Unless Eligible RPS Holders apply for more CPS than the number of RPS held on 16 March 2012, Eligible RPS Holders will not be required to make a separate Application Payment as the RPS buy-back price will be applied to the CPS Application Payment (see Section 6.5.1). – For issuer sponsored Eligible RPS Holders to participate in the Reinvestment Offer, their Application Form must be received by the Registry no later than 5:00pm on the Closing Date for the Reinvestment Offer which is expected to be 19 April 2012. – For CHESS sponsored Eligible RPS Holders to participate in the Reinvestment Offer, they must contact their stockbroker or CHESS controlling participant, or alternatively, send the Application Form to Computershare and Computershare will contact their controlling participant on their behalf. Their Application must be received by Computershare no later than 5:00pm on 19 April 2012. – If Eligible RPS Holders apply to have RPS reinvested in CPS, it is their responsibility to ensure that RPS that are to be reinvested in CPS are not disposed of. If RPS that are intended to be reinvested in CPS are disposed of prior to the Closing Date for the Reinvestment Offer, the number of CPS that may be allocated will be reduced to the extent that the required number of RPS are not available on the Closing Date for the Reinvestment Offer, 19 April 2012. – Under the Reinvestment Offer, Eligible RPS Holders will receive a priority allocation of CPS applied for, over General Applicants, if there is excess demand for CPS. – Once you have submitted an application to reinvest your RPS, you will not be able to successfully deal with those RPS until those RPS are released from the holding lock which is placed on them. The holding lock will be released from those RPS not successfully reinvested into CPS as soon as practicable after the Issue Date for the Offer. Option A. Full reinvestment – Eligible RPS Holders may apply to reinvest all of the RPS registered on 16 March 2012 in CPS. – To choose this option, Eligible RPS Holders must indicate “full reinvestment” on the personalised Application Form. – If you are a CHESS sponsored holder, you should contact your broker or CHESS controlling participant for instructions as to how to apply or alternatively, send your Application Form to Computershare who will contact your controlling participant on your behalf. – If you are an issuer sponsored holder (your SRN starts with the letter “i”) you may also complete the Application Form online through www.iag.com.au/cpsoffer (you will need your SRN and your postcode). – If, on 19 April 2012, an Eligible RPS Holder holds a greater or lesser number of RPS than shown on the personalised Application Form, and the Eligible RPS Holder selects the full reinvestment option, you will be taken to have applied for reinvestment of the lower of the number of RPS specified on the personalised Application Form and the number of RPS registered on 19 April 2012. Option B. Partial reinvestment – Eligible RPS Holders may apply to have only some of those RPS registered on 16 March 2012 reinvested in CPS. – To choose this option, Eligible RPS Holders must specify the number of RPS to be reinvested on the personalised Application Form. – If you are a CHESS sponsored holder, you should contact your broker or CHESS controlling participant for instructions as to how to apply or alternatively, send your Application Form to Computershare who will contact your controlling participant on your behalf. – If you are an issuer sponsored holder (your SRN starts with the letter “i”) you may also complete the Application Form online through www.iag.com.au/cpsoffer (you will need your SRN and your postcode). – If, on 19 April 2012, an Eligible RPS Holder holds a greater or lesser number of RPS than they elect to reinvest on their personalised Application Form, the Eligible RPS Holder will be taken to have applied for reinvestment of the lower of the number of RPS specified on the personalised Application Form and the number of RPS registered on 19 April 2012.

SECTION 6
ABOUT THE REINVESTMENT OFFER CONTINUED

OPTION	WHAT SHOULD ELIGIBLE RPS HOLDERS DO?
	Option C. Apply for additional CPS – Eligible RPS Holders may also apply for more CPS than the number of RPS held on 16 March 2012. – To choose this option, Eligible RPS Holders must specify the number of additional CPS they wish to apply for on the personalised Application Form. Eligible RPS Holders will receive a priority allocation of CPS applied for, over General Applicants, if there is excess demand for CPS. However, an Eligible RPS Holder's Application for additional CPS may be scaled back if there is excess demand – see Section 7.2 for further details. – Eligible RPS Holders are required to enclose an Application Payment for the additional CPS applied for. Application Payments must be made by cheque or BPAY® – see Section 7.2 for further details. – If you are a CHESS sponsored holder, you should contact your broker or CHESS controlling participant for instructions as to how to apply or alternatively send your Application Form to Computershare who will contact your controlling participant on your behalf. – If you are an issuer sponsored holder (your SRN starts with the letter "i") you may also complete the Application Form online through www.iag.com.au/cpsoffer (you will need your SRN and your postcode). – If an Eligible RPS Holder holds a greater or lesser number of RPS than shown on the personalised Application Form on 19 April 2012, Eligible RPS Holders will be taken to have applied for reinvestment of the lower of the number of RPS specified on the personalised Application Form and the number of RPS held on 19 April 2012.
Option 2 – take no action – your RPS will be bought back for $100 per RPS on 15 June 2012	– Eligible RPS Holders are not required to participate in the Reinvestment Offer and as such are not required to take any action. – If you choose to take no action, IAG will buy back all remaining RPS on issue on 15 June 2012 and you will receive the face value ($100) for each RPS that you hold on the Reset Date for RPS and a RPS final dividend, subject to the RPS terms. – Payments are expected to be made on the Reset Date for RPS (15 June 2012). – IAG has provided further details to holders in an RPS exchange notice which was mailed to RPS holders on 2 April 2012.
Option 3 – apply under the Broker Firm Offer to reinvest your RPS in CPS	– If you are an Eligible RPS Holder and are an Australian resident retail or high net worth client of a Syndicate Broker, you may apply for CPS under the Broker Firm Offer. – You may apply to reinvest all or some of the RPS registered in your name on 16 March 2012 in CPS. You may also choose to apply for more CPS. – Eligible RPS Holders will not be required to make a separate Application Payment unless more CPS than the number of RPS registered on 16 March 2012 are applied for. – Eligible RPS Holders should contact your Syndicate Broker for instructions on how to submit an Application Form and, if applicable, an Application Payment.
Option 4 – sell your RPS on market through your broker	– You may choose to sell your RPS on market through your broker at the prevailing market price. To choose this option, you should contact your broker before the last trading day for RPS. – At or around the date of this Prospectus, IAG will give RPS holders an RPS exchange notice to buy back RPS on 15 June 2012. The last trading day for the RPS is expected to be 23 May 2012. – Under this option, you may have to pay brokerage and may receive a price greater or less than the face value of $100 per RPS. – If you choose this option, you will not be entitled to receive the RPS final dividend on the RPS you sell. In respect of the RPS you sell, you have the option to use the sale proceeds to subscribe for CPS or you can choose not to.

6.3.2 What are the options available to RPS holders who are ineligible to participate in the Offer?

RPS holders who have a registered address outside Australia or do not hold RPS on 16 March 2012 are ineligible to participate in the Reinvestment Offer.[14] In these circumstances, RPS holders are limited to the following options:

- sell RPS on market through your broker before the last trading day for the RPS which is expected to be 23 May 2012; or
- take no action. At or around the date of this Prospectus, IAG will give RPS holders an RPS exchange notice such that the RPS will be bought back by IAG for $100 per RPS on 15 June 2012. RPS holders will also receive any final dividend paid on the RPS. The face value and any RPS final dividend will be paid via direct credit or cheque, in accordance with your payment instructions on the Reset Date for RPS.

6.4 WHAT ARE THE RISKS ASSOCIATED WITH PARTICIPATING IN THE REINVESTMENT OFFER?

If you are an Eligible RPS Holder and you apply under the Reinvestment Offer, you may receive an allocation of CPS. As such, you will be subject to the risks associated with an investment in CPS and in IAG, many of which are outside the control of IAG and its Directors. These risks are outlined in Section 5 and should be considered before you apply under the Reinvestment Offer.

6.5 FURTHER INFORMATION ABOUT RPS AND PARTICIPATING IN THE REINVESTMENT OFFER

6.5.1 How will the Reinvestment work?

To facilitate the buy-back, and reinvestment – by submitting an Application Form, Eligible RPS Holders will authorise IAG (or its officers), on their behalf, to draw a promissory note for them payable to IAG or to its order to represent the subscription amount for the CPS and to receive it back and extinguish it on their behalf. That promissory note will be endorsed back to Eligible RPS Holders, to satisfy the buy-back price. IAG (or its officers) may also sign transfer forms in respect of the Reinvested RPS to complete the buy-back. The promissory note will be extinguished, the Reinvested RPS will be cancelled, Eligible RPS Holders will hold fully-paid up CPS and the buy-back amount will have been funded by, and off-set by the subscription for the CPS. Eligible RPS Holders will not otherwise receive cash proceeds of the buy-back of the Reinvested RPS. The promissory note is unconditional (once drawn), but it will not be drawn if the Offer does not proceed, nor to the extent that RPS are not reinvested (whether due to scale back, or otherwise). Where this document refers to "reinvestment", this is the mechanism that will be used.

A promissory note structure is being used for RPS holders participating in the Reinvestment Offer to provide and evidence a mechanism for payment of the CPS subscription monies without the need to make a cash Application Payment.

IAG and its officers are also authorised under the terms of the RPS (as amended effective as of 27 March 2012) to take necessary steps and to sign documents on behalf of Eligible RPS Holders to complete the buy-back of RPS.

6.5.2 Do you need to apply for a minimum number of CPS?

There is no minimum number of RPS that you must hold to be able to participate in the Reinvestment Offer.

If you are an Eligible RPS Holder and own 50 RPS or fewer, you must apply to reinvest all your RPS in CPS if you wish to participate in the Reinvestment Offer.

If you are an Eligible RPS Holder and own more than 50 RPS, you must apply for a minimum number of 50 CPS ($5,000).

6.5.3 When will the remaining RPS be bought back?

RPS buy-back proceeds, for those RPS not reinvested, will be paid on the Reset Date for RPS, being 15 June 2012, in accordance with your RPS payment instructions.

6.5.4 What do you do if you have sold some of your RPS but wish to apply for CPS?

If you hold fewer RPS than set out on your personalised Application Form, you may still reinvest the remaining RPS registered in your name on 19 April 2012 in CPS.

If you wish to apply for more CPS than the number of RPS registered in your name on 19 April 2012, you will need to make a separate Application Payment.

You may also apply for partial reinvestment in the manner outlined in Section 6.3.1.

6.5.5 Can you sell your RPS after you have completed and returned your Application Form?

If you apply to have your RPS reinvested in CPS, it is your responsibility to ensure that you do not sell or dispose of any of those RPS that you wish to reinvest, other than as part of the Reinvestment.

Holders are taken to agree to a holding lock being placed on those RPS, pending completion of the Reinvestment – but it is your obligation to ensure that you do not transfer those RPS. If you do, the number of CPS you may be allocated will be reduced to the extent the required number of RPS are not available on 19 April 2012.

Once you have submitted an Application Form to reinvest your RPS, you will not be able to successfully deal with those RPS until those RPS are released from the holding lock which is placed on them. The holding lock will be released from those RPS not successfully reinvested into CPS as soon as practicable after the Issue Date for the Offer.

(14) RPS holders who are in the United States or acting as a nominee for a person in the United States are also ineligible and cannot participate in the Reinvestment Offer.

SECTION 6
ABOUT THE REINVESTMENT OFFER CONTINUED

6.5.6 What are the tax implications of having your RPS bought back?

A general outline of the taxation implications for certain investors who are Australian residents for tax purposes investing in the Offer can be found in the Australian taxation summary in Section 8.

6.5.7 Can you continue to hold your RPS after the Reset Date for RPS?

At or around the date of this Prospectus, IAG will give RPS holders an RPS exchange notice to buy back RPS on the Reset Date for RPS, 15 June 2012. After the Reset Date for RPS, RPS will no longer be on issue and you cannot continue to hold RPS.

6.5.8 Can you change your RPS payment instructions?

If you elect to reinvest some or all of your RPS in CPS and you wish to change your RPS payment instructions for the payment of the Pro Rata Dividend on your Reinvested RPS you must provide updated instructions to the Registry by 27 April 2012.

6.5.9 Is brokerage or stamp duty payable?

No brokerage or stamp duty is payable on the buy-back of your RPS or your Application for CPS.

RPS holders who choose to sell their RPS on market through their broker may be required to pay applicable brokerage.

6.5.10 What happens if the CPS offer does not proceed?

If you have elected to reinvest some or all of your RPS in CPS and the Offer does not proceed, your RPS will not be bought back on 1 May 2012 and you will continue to hold RPS. Any Application Payment in respect of additional CPS will be refunded to you. No interest will be payable on any additional Application Payment.

If the CPS offer does not proceed, IAG will separately notify RPS holders of their options on the Reset Date for RPS, 15 June 2012, and if IAG will redeem, buy back or convert RPS.

SECTION 7

About the Offer

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SECTION 7
ABOUT THE OFFER

This Section provides information about the Offer, including how to apply. The key dates in relation to the Offer are outlined on page 3.

TOPIC	SUMMARY
7.1 The Offer	
How is the Offer structured?	– The Offer comprises: – an Institutional Offer to certain Institutional Investors; – a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers; – a Reinvestment Offer made to Eligible RPS Holders; and – a General Offer made to members of the general public who are resident in Australia.
Is any brokerage, commission or stamp duty payable?	– No brokerage, commission or stamp duty is payable on your Application. You may have to pay brokerage, but will not have to pay any stamp duty, on any later sale of your CPS on ASX after CPS have been quoted on ASX.
Will Application Payments be held on trust?	– All Application Payments received before CPS are issued will be held by IAG on trust in an account established solely for the purposes of depositing Application Payments received. Any interest that accrues in that account will be retained by IAG. After CPS are issued to successful Applicants, the Application Payments held on trust will be payable to IAG.
How will refunds (if any) be made?	– Applicants who are not allotted any CPS, or are allotted fewer CPS than the number applied and paid for as a result of a scale back, will have all or some of their Application Payments (as applicable) refunded (without interest) as soon as practicable after the Issue Date. – In the event that the Offer does not proceed for any reason, all Applicants will have their Application Payments refunded (without interest) as soon as practicable. – If the CPS offer does not proceed, IAG will separately notify RPS holders of their options on the Reset Date for RPS, 15 June 2012, and if IAG will redeem, buy back or convert RPS.
Do I need to provide my TFN or ABN?	– General Applicants who have not already quoted their TFN or ABN and are issued any CPS may be contacted in relation to quoting their TFN, ABN or both. – The collection and quotation of TFNs and ABNs are authorised, and their use and disclosure is strictly regulated, by tax laws and the Privacy Act. – Successful Applicants who do not have an address in Australia registered with the Registry, or who direct the payment of any Dividend to an address outside of Australia, may have an amount deducted for Australian withholding tax from any Dividend paid, to the extent that the Dividend is not fully franked.
How do I obtain a copy of the Prospectus and Application Form?	– During the Exposure Period, an electronic version of this Prospectus (without an Application Form) will be available to eligible investors at www.iag.com.au/cpsoffer. Application Forms will not be made available until after the Exposure Period. – During the Offer Period, an electronic version of this Prospectus with an Application Form will be available to eligible investors through www.iag.com.au/cpsoffer and may be available through your Syndicate Broker. **Electronic access to this Prospectus** The following conditions apply if this Prospectus is accessed electronically: – you must download the entire Prospectus; – your Application will only be considered where you have applied on an application form that was attached to or accompanied by a copy of the Prospectus; and – the Prospectus is available electronically to you only if you are accessing and downloading or printing the electronic copy of the Prospectus in Australia, or if you are an Eligible RPS Holder in Australia. – During the Offer Period, you can also request a free paper copy of this Prospectus and an Application Form by calling the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm). – The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, a printed copy of this Prospectus or the complete and unaltered electronic version of this Prospectus. – Applications will only be considered where Applicants have applied pursuant to an application form (either electronic or paper) that was attached to, or accompanied by, a copy of this Prospectus, and have provided an Application Payment.

7.2 How to apply

	INSTITUTIONAL OFFER	BROKER FIRM OFFER	REINVESTMENT OFFER	GENERAL OFFER
Who can apply?	Institutional Investor – i.e. an investor who was invited by the Joint Lead Managers to bid for CPS in the Bookbuild and who has applied through the Institutional Offer (provided that such investor may not be in the United States)	Broker Firm Applicant – i.e. an Australian resident retail or high net worth client of a Syndicate Broker invited to participate through the Broker Firm Offer.	RPS Holder Applicant – i.e. an Eligible RPS Holder who is applying through the Reinvestment Offer.	General Applicant – i.e. a member of the general public who is resident in Australia applying through the General Offer.
How many CPS can be applied for?	– Your Application must be for a minimum of 50 CPS ($5,000). Note that RPS Holder Applicants who wish to participate in the Reinvestment Offer and who own 50 RPS or fewer must apply to reinvest all RPS in CPS.			
When to apply[15]	– The Bookbuild was conducted on 26 March 2012	– Applications will only be accepted during the Offer Period, which is expected to open on 27 March 2012. – The Closing Date for the Broker Firm Offer is 10:00am on 30 April 2012 (excluding applications in respect of Reinvested RPS). – The Closing Date for the Broker Firm Offer (applications in respect of Reinvested RPS) is 5:00pm on 19 April 2012. – Your completed Application Form and Application Payment must be received by your Syndicate Broker in accordance with arrangements made between you and your Syndicate Broker. – If you are a client of a Syndicate Broker, please contact your broker directly for instructions as to how to participate in the Offer.	– Applications will only be accepted during the Offer Period, which is expected to open on 27 March 2012. – The Closing Date for the Reinvestment Offer is 5:00pm on 19 April 2012. – Your completed personalised paper Application Form and Application Payment (if applicable) must be received by the Registry by the Closing Date. – The options available to Eligible RPS Holders under the Reinvestment Offer are outlined in Section 6.2.1.	– Applications will only be accepted during the Offer Period, which is expected to open on 27 March 2012. – The Closing Date for the General Offer is 5:00pm on 19 April 2012. – Your completed paper Application Form or online Application Form and Application Payment must be received by the Registry by the Closing Date.

(15) These dates are indicative only and may change without notice. You are encouraged to apply as soon as possible after the Opening Date.

SECTION 7
ABOUT THE OFFER CONTINUED

7.2 How to apply

	INSTITUTIONAL OFFER	BROKER FIRM OFFER	REINVESTMENT OFFER	GENERAL OFFER
How to apply online	– N/A	– Contact your Syndicate Broker for instructions.	– Ability to apply online is available to issuer sponsored holders who wish to reinvest their RPS or apply for additional CPS using BPAY®. – CHESS sponsored holders should seek instructions from their brokers or controlling participant as to how to reinvest their RPS, however, can apply online for additional CPS.	– You can apply online through www.iag.com.au/cpsoffer. – Instructions on how to complete your Application are provided online. – When applying online, you will be required to pay for CPS using BPAY®.
How to pay online	– N/A	– N/A	– If you apply using an online Application Form, you must complete your Application for additional CPS by making a BPAY® payment. – Once you have completed your online Application Form, you will be given a BPAY® biller code and unique Customer Reference Number for that Application. Follow the BPAY® instructions below to complete your Application. – If you do not make a BPAY® payment, your Application will be incomplete and will not be accepted by IAG. – Your completed online Application Form and Application Payment must be received by the Registry by the Closing Date.	– If you apply using an online Application Form, you must complete your Application by making a BPAY® payment. – Once you have completed your online Application Form, you will be given a BPAY® biller code and unique Customer Reference Number for that Application. Follow the BPAY® instructions below to complete your Application. – If you do not make a BPAY® payment, your Application will be incomplete and will not be accepted by IAG. – Your completed online Application Form and Application Payment must be received by the Registry by the Closing Date.

7.2 How to apply

	INSTITUTIONAL OFFER	BROKER FIRM OFFER	REINVESTMENT OFFER	GENERAL OFFER
How to use BPAY®	– N/A	– N/A	– Using the BPAY® details provided, you need to: – access your participating BPAY® financial institution either through telephone banking or internet banking; – select BPAY® and follow the prompts; – enter the biller code supplied; – enter the unique Customer Reference Number supplied for each Application; – enter the total amount to be paid which corresponds to the number of additional CPS you wish to apply for under each Application (i.e. a minimum of $5,000 – 50 CPS). Note that your financial institution may apply limits on your use of BPAY® and that you should make enquiry about the limits that apply in your own personal situation; – select the account you wish your payment to be made from; – schedule your payment for the same day that you complete your online Application Form since Applications without payment cannot be accepted; and – record your BPAY® receipt number and date paid. Retain these details for your records. – BPAY® payments must be made from an Australian dollar account of an Australian financial institution.	– Using the BPAY® details provided, you need to: – access your participating BPAY® financial institution either through telephone banking or internet banking; – select BPAY® and follow the prompts; – enter the biller code supplied; – enter the unique Customer Reference Number supplied for each Application; – enter the total amount to be paid which corresponds to the number of CPS you wish to apply for under each Application (i.e. a minimum of $5,000 – 50 CPS). Note that your financial institution may apply limits on your use of BPAY® and that you should make enquiry about the limits that apply in your own personal situation; – select the account you wish your payment to be made from; – schedule your payment for the same day that you complete your online Application Form since Applications without payment cannot be accepted; and – record your BPAY® receipt number and date paid. Retain these details for your records. – BPAY® payments must be made from an Australian dollar account of an Australian financial institution.

SECTION 7
ABOUT THE OFFER CONTINUED

7.2 How to apply

	INSTITUTIONAL OFFER	BROKER FIRM OFFER	REINVESTMENT OFFER	GENERAL OFFER
How to apply using a paper Application Form[16]	– Application and settlement procedures for Institutional Investors will be advised by the Joint Lead Managers.	– There are paper Application Forms in the back of this Prospectus that may be used by Broker Firm Applicants. – General instructions on how to complete the paper Application Form are set out on the Application Form. – You must contact your Syndicate Broker for their specific instructions on how to submit the paper Application Form and your Application Payment to your Syndicate Broker. – You must not return your paper Application Form to the Registry. – Your Syndicate Broker must have received your completed paper Application Form and Application Payment (as applicable) in time to arrange settlement on your behalf by the Closing Date for the Broker Firm Offer (excluding applications in respect of Reinvested RPS) – being 10:00am on 30 April 2012 and by the Closing Date for the Broker Firm Offer (applications in respect of Reinvested RPS) – being 5:00pm on 19 April 2012. – Your Syndicate Broker will act as your agent in processing your paper Application Form and providing your Application details and Application Payment to IAG.	– Follow the instructions to complete the personalised Application Form which will be mailed to you with a copy of this Prospectus and an RPS exchange notice on or around 2 April 2012. – You can also request a paper copy of the Prospectus and your personalised Application Form by calling the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm). – If applicable, you will be required to pay your Application Payment by 19 April 2012 by cheque(s) and/or money order(s). – You will be required to post your completed personalised Application Form to the Registry.	– There are paper Application Forms in the back of this Prospectus that should be used by General Applicants. – You can request a paper copy of the Prospectus and paper Application Form by calling the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm). – Instructions on how to complete the paper Application Form are set out on the Application Form. – If applying using the paper Application Form, you will be required to pay for CPS using cheque(s) and/or money order(s). If you wish to pay by BPAY®, you need to make an online Application. – You will be required to post your completed paper Application Form to the Registry.
What is the address of the Registry?	– N/A	– N/A	– IAG CPS Offer c/o Computershare Investor Services Pty Limited GPO Box 2115, Melbourne 3001 – Please note that paper Application Forms and Application Payments will not be accepted at any other address or office and will not be accepted at IAG's registered office or any other IAG office or at other offices or branches of the Registry.	

(16) These dates are indicative only and may change without notice. You are encouraged to apply as soon as possible after the Opening Date.

7.2 How to apply

	INSTITUTIONAL OFFER	BROKER FIRM OFFER	REINVESTMENT OFFER	GENERAL OFFER
How to pay using a paper Application Form[17]	– N/A	– You must contact your Syndicate Broker for information on how to submit the paper Application Form and your Application Payment to your Syndicate Broker.	– If you apply using your personalised Application Form, a separate Application Payment is only required if you choose to apply for more CPS than the number of RPS registered in your name on 16 March 2012. – If you dispose of RPS which you have applied for Reinvestment, the number of CPS you may be allocated will be reduced to the extent the required number of RPS are not available on 19 April 2012. – Otherwise, a separate Application Payment is not necessary as the RPS buy-back price will be applied to the CPS Application Payment. – You cannot pay by BPAY® if you apply under the Reinvestment Offer using a paper Application Form. If you wish to pay by BPAY®, you need to make an online Application. – If you choose to apply for more CPS than the number of RPS registered in your name on 16 March 2012, your completed Application Form must be accompanied by an Application Payment in the form of cheque(s) and/or money order(s) drawn on an Australian dollar account of an Australian financial institution and made payable to "IAG CPS Offer". – Cheque(s) should be crossed "Not Negotiable". Cash payments will not be accepted. – If your Application is not accompanied by an Application Payment for the additional CPS, you will be taken to have applied for that number of RPS that you hold on 19 April 2012.	– If you apply under the General Offer using a paper Application Form, your completed Application Form must be accompanied by an Application Payment in the form of cheque(s) and/or money order(s) drawn on an Australian dollar account of an Australian financial institution and made payable to "IAG CPS Offer". – Cheque(s) should be crossed "Not Negotiable". Cash payments will not be accepted. – You cannot pay by BPAY® if you apply under the General Offer using a paper Application Form. If you wish to pay by BPAY®, you need to make an online Application. – Your completed paper Application Form and Application Payment must be received by the Registry by the Closing Date.

(17) These dates are indicative only and may change without notice. You are encouraged to apply as soon as possible after the Opening Date.

SECTION 7
ABOUT THE OFFER CONTINUED

7.2 How to apply

	INSTITUTIONAL OFFER	BROKER FIRM OFFER	REINVESTMENT OFFER	GENERAL OFFER

What is the allocation policy?	– Allocations to Institutional Investors have been agreed by the Joint Lead Managers and IAG following completion of the Bookbuild.	– Allocations to Syndicate Brokers have been agreed by the Joint Lead Managers and IAG following completion of the Bookbuild.
		– Allocations to Broker Firm Applicants by a Syndicate Broker are at the discretion of that Syndicate Broker.
			– Eligible RPS Holders who apply under the Reinvestment Offer will receive a priority allocation of CPS applied for, over General Applicants, if there is excess demand for CPS.
			– Allocations for the Reinvestment Offer will be determined by IAG in consultation with the Joint Lead Managers after the Closing Date.
			– IAG (at its discretion and in consultation with the Joint Lead Managers) reserves the right to scale back Applications from RPS Holder Applicants. Any scale back will be announced on ASX on the day CPS commence trading on a deferred settlement basis – expected to be 2 May 2012.
			– IAG, after consultation with the Joint Lead Managers, has absolute discretion to determine the method and extent of the allocation.
			– IAG (at its discretion and in consultation with the Joint Lead Managers) and the Joint Lead Managers reserve the right to:
			  – allocate to any RPS Holder Applicant all CPS for which they have applied;
			  – reject any Application by an RPS Holder Applicant; or
			  – allocate to any RPS Holder Applicant a lesser number of CPS than that applied for, including less than the minimum Application of CPS, or none at all.
			– No assurance is given that any RPS Holder Applicant will receive an allocation.
				– Allocations for the General Offer will be determined by IAG in consultation with the Joint Lead Managers after the Closing Date.
				– IAG (at its discretion and in consultation with the Joint Lead Managers) reserves the right to scale back Applications from General Applicants. Any scale back will be announced on ASX on the day CPS commence trading on a deferred settlement basis – expected to be 2 May 2012.
				– IAG, after consultation with the Joint Lead Managers, has absolute discretion to determine the method and extent of the allocation.
				– IAG (at its discretion and in consultation with the Joint Lead Managers) and the Joint Lead Managers reserve the right to:
				  – allocate to any General Applicant all CPS for which they have applied;
				  – reject any Application by a General Applicant; or
				  – allocate to any General Applicant a lesser number of CPS than that applied for, including less than the minimum Application of CPS, or none at all.
				– No assurance is given that any General Applicant will receive an allocation.

7.2 How to apply

	INSTITUTIONAL OFFER	BROKER FIRM OFFER	REINVESTMENT OFFER	GENERAL OFFER
How will the final allocation policy be announced?	– Allocations to Institutional Investors will be advised to those investors under the Bookbuild.	– Allocations to Syndicate Brokers will be advised to those brokers under the Bookbuild. – Applicants under the Broker Firm Offer will also be able to confirm their firm allocation through the Syndicate Broker from whom they received their allocation. – However, if you sell CPS before receiving a Holding Statement, you do so at your own risk, even if you confirmed your firm allocation through a Syndicate Broker.	– Applicants in the Reinvestment Offer or General Offer will be able to call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm) to confirm your allocation. It is expected that this information will be advertised in *The Sydney Morning Herald, The Age, The Australian* and *The Australian Financial Review* on or about 1 May 2012. – However, if you sell CPS before receiving a Holding Statement, you do so at your own risk, even if you obtained details of your holding from the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm).	
Who should I contact with an enquiry?	– Contact the Joint Lead Managers.	– If you have further questions about the Offer or your Broker Firm Application, please call your Syndicate Broker.	– You can call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm) if you: – have further questions on how to apply for CPS; – require assistance to complete your Application Form; – require additional copies of this Prospectus and Application Forms; or – have any other questions about the Offer. – If you are unclear in relation to any matter relating to the Offer or are uncertain whether CPS are a suitable investment for you, you should consult your stockbroker, solicitor, accountant or other independent and qualified professional adviser.	

SECTION 7
ABOUT THE OFFER CONTINUED

7.3 OTHER INFORMATION

7.3.1 Bookbuild

The Bookbuild is a process that was conducted by the Joint Lead Managers before the Opening Date to determine the Margin and firm allocations of CPS to Bookbuild participants, by agreement with IAG. In this process, the Bookbuild participants were invited to lodge bids for a number of CPS. On the basis of those bids, the Joint Lead Managers and IAG, by mutual agreement, determined the Margin and the firm allocations to Syndicate Brokers and to certain Institutional Investors.

The Bookbuild was conducted in the manner contemplated in this Prospectus and otherwise on the terms and conditions agreed to by IAG and the Joint Lead Managers in the Offer Management Agreement – see Section 10.

IAG may increase the size of the Offer following the close of the Bookbuild.

7.3.2 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, CPS or the Offer or otherwise to permit a public offering of CPS in any jurisdiction outside Australia.

The distribution of this Prospectus (including an electronic copy) outside Australia may be restricted by law. If you come into possession of this Prospectus outside Australia, then you should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may violate securities laws. This Prospectus does not constitute an offer or invitation in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

This Prospectus (including an electronic copy) may not be distributed or released, in whole or in part, in the United States. Neither the CPS nor the Ordinary Shares have been or will be registered under the US Securities Act or the securities laws of any state of the United States, and they may not be offered or sold in the United States. The CPS are being offered and sold in the Offer solely outside the United States pursuant to Regulation S under the US Securities Act.

Any offer, sale or resale of CPS in the United States by a dealer (whether or not participating in the Offer) may violate the registration requirements of the US Securities Act.

Subject to IAG approval, CPS may be offered in certain permitted jurisdictions outside Australia under the Institutional Offer where such offer is made, and accepted, in accordance with the laws of such jurisdictions.

Each person submitting an Application Form will be deemed to have acknowledged that they are aware of the restrictions referred to in this Section 7.3.2 and to have represented and warranted that they are able to apply for and acquire CPS in compliance with those restrictions.

7.3.3 Application to ASX for quotation of CPS

IAG has applied to ASX for CPS to be quoted on ASX. If ASX does not grant permission for CPS to be quoted within three months after the date of this Prospectus, CPS will not be issued and all Application Payments will be refunded (without interest) to Applicants as soon as practicable.

7.3.4 CHESS and issuer sponsored holdings

IAG will apply for CPS to participate in CHESS. No certificates will be issued for CPS. IAG expects that Holding Statements for issuer sponsored holders and confirmations for CHESS holders will be despatched to successful Applicants by 7 May 2012.

7.3.5 Deferred settlement trading and selling CPS on market

It is expected that CPS will begin trading on ASX on a deferred settlement basis on 2 May 2012 under ASX code "IAGPC". Trading is expected to continue on that basis until 8 May 2012, when it is anticipated that trading of CPS will begin on a normal settlement basis. Deferred settlement will occur as a consequence of trading which takes place before Holding Statements are despatched to successful Applicants.

You are responsible for confirming your holding before trading in CPS. If you are a successful Applicant and sell your CPS before receiving your Holding Statement, you do so at your own risk.

You may call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm) or your Syndicate Broker, after the Issue Date to enquire about your allocation.

7.3.6 Provision of bank account details for Dividends

IAG's current policy is that CPS Holders with a registered address in Australia will be paid Dividends by direct credit into nominated Australian financial institution accounts (excluding credit card accounts) and for all other CPS Holders, payments will be made by Australian dollar cheque.

7.3.7 Discretion regarding the Offer

IAG reserves the right not to proceed with the Offer at any time before the issue of CPS to successful Applicants.

IAG may withdraw the Offer at any time before the issue of CPS to successful Applicants. If the Offer, or any part of it, does not proceed, all relevant Application Payments will be refunded (without interest).

IAG and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer CPS than applied or bid for. This is at IAG's discretion, and they are under no obligation to exercise that discretion in any particular case.

Investors should also note that no cooling off rights (whether by law or otherwise) apply to an investment in CPS. This means that, in most circumstances, Applicants may not withdraw their Applications once submitted.

SECTION 8

Australian taxation summary

SECTION 8
AUSTRALIAN TAXATION SUMMARY

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19 March 2012

The Directors
Insurance Australia Group Limited
388 George Street
SYDNEY NSW 2000

Dear Directors

Insurance Australia Group Limited
Convertible Preference Shares (CPS)

1 Income tax consequences of investing in CPS

The following is a summary of the main Australian tax consequences under the Income Tax Assessment Act 1936 and Income Tax Assessment Act 1997 ("**Tax Act**") for holders of CPS ("**Holders**") who are residents of Australia for Australian taxation law purposes and subscribe for CPS under the Prospectus and hold them on capital account.

The summary is not exhaustive and does not consider the Australian tax consequences for all Holders. In particular, it does not consider the Australian tax consequences for:

- Holders who are not residents of Australia for Australian taxation law purposes;
- Holders who carry on business at or through a permanent establishment outside Australia;
- Holders who hold CPS as assets used in carrying on a business of share trading, banking or investment or otherwise hold CPS on revenue account or as trading stock.

This summary does not constitute legal or taxation advice and is of a general nature only. If you are considering investing in CPS you should therefore obtain independent legal and taxation advice relevant to your particular circumstances from time to time.

This summary is based on Australian tax legislation, interpretations of that legislation and administrative practice as at the date of this Prospectus.

IAG has applied for a Class Ruling from the Commissioner of Taxation ("**Commissioner**"), requesting confirmation of the Commissioner's views of the income tax issues discussed below. As at the date of this taxation summary, the Class Ruling has not yet been published by the Commissioner. It is expected that the

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Beijing | Brisbane | Canberra | Chengdu | Chongqing | Guangzhou | Hangzhou | Hong Kong | Jinan | London | Melbourne | New York | Perth | Qingdao | Shanghai | Shenzhen
Silicon Valley | Suzhou | Sydney | Tianjin | Tokyo

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Commissioner will publish a favourable Class Ruling on the income tax issues discussed below, although publication may not occur until after the date that the CPS are issued. However, we expect a draft Class Ruling will be provided by the Commissioner prior to the Closing Date for the General Offer in respect of CPS.

1.2 Receipt of Dividends

(a) General

The CPS should be characterised as "equity interests" for income tax purposes. Accordingly, Dividends paid on the CPS will be "frankable". Such Dividends may be franked, unfranked or only partially franked. The amount of the cash Dividend payable will be subject to adjustment in accordance with formulae that take into account the level of franking credits attached and changes in the corporate tax rate, so that Holders receive a particular gross yield for each Dividend paid.

A Holder will be required to include in their assessable income the amount of any Dividend that they receive on their CPS. To the extent that a Dividend is franked, a Holder will be required to include in their assessable income the franking credits attached to that Dividend.

Subject to the comments below regarding "qualified persons", a Holder who is an individual or a complying superannuation entity may be entitled to tax offsets based on the franking credits attached to a Dividend, or to a tax refund to the extent that the tax offsets exceed the tax that is otherwise payable by the Holder.

If a Holder is a company, a franking credit should arise in its franking account to the extent that the Dividend is franked, subject to the comments below regarding "qualified persons".

(b) Qualified person

A Holder must be a "qualified person" regarding a Dividend paid on their CPS before they will be entitled to the benefit of the tax offsets that flow from receiving franked Dividends. A Holder will be a qualified person in respect of their CPS if they have held their CPS at risk for a continuous period of at least 90 days (excluding the days of acquisition and disposal) during:

- where neither the Holder nor an associate has made, is under an obligation to make, or is likely to make, a related payment in respect of the dividend (which has the effect of passing on the Dividend to other entities) – the "primary qualification period", being the period beginning the day after the Holder acquired the CPS and ending on the 90th day after the day on which the CPS became ex-Dividend; or

- where a Holder, or an associate has made, is under an obligation to make, or is likely to make a "related payment" – the "secondary qualification period", being the period beginning on the 90th day before and ending on the 90th day after the day on which the CPS became ex-dividend.

A Holder that is an individual and who will not claim tax offsets in excess of $5000 in any one year will be taken to be a "qualified person" in relation to all dividends paid during that year of income, provided that the Holder has not made, is not likely to make or under an obligation to make a "related payment" in respect of the Dividends.

SECTION 8
AUSTRALIAN TAXATION SUMMARY CONTINUED

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Insurance Australia Group Limited 19 March 2012

(c) Anti-avoidance rule

Section 177EA of the Tax Act is an anti-avoidance provision that applies to schemes in respect of which, having regard to objective factors (the "relevant circumstances"), it would be concluded that the person, or persons, who entered into or carried out the scheme or any part of the scheme did so for a purpose (whether or not the dominant purpose but not including an incidental purpose) of enabling the relevant taxpayer to obtain an imputation benefit. Where section 177EA applies the Commissioner may make a written determination with the effect of either:

- imposing a franking debit on the distributing entity's franking account; or
- denying the imputation benefit on the distribution that flowed directly or indirectly to the relevant taxpayer.

The decision of the Full Federal Court in *Mills v Commissioner of Taxation* [2011] FCAFC 158 ("***Mills***") upheld the application by the Commissioner of section 177EA to certain securities ("**PERLS V**") issued by the Commonwealth Bank of Australia ("**CBA**").

Like the CPS, the PERLS V provide investors with a "gross-up" of dividends to the extent that they are not franked by a factor that reflects the value of franking credits that the investor would have received if the dividend had been fully franked. This was a characteristic of the PERLS V that the majority of the Full Federal Court in *Mills* held supported the inference that in issuing the PERLS V the CBA had a non-incidental purpose of enabling investors to obtain imputation benefits.

However, there are important architectural differences between the CPS and the PERLS V, including no offshore structural elements such as those present in PERLS V. Prior to *Mills* the Commissioner had publicly ruled that section 177EA did not apply to convertible preference shares analogous to the CPS (see, for example, Class Ruling 2011/84). In this regard, the Commissioner recognised that the issue of securities like the CPS are not undertaken with a non-incidental purpose of enabling imputation benefits to be obtained by investors. To the extent that any imputation benefits are secured, those benefits are incidental to the more significant objective purposes of raising capital for the issuer.

The Commissioner has since issued a statement saying that the mere presence of matters going to paragraph 177EA(17)(f) (such as the gross-up of unfranked dividends) alone would not ordinarily require the conclusion that section 177EA applies. Having regard to the other relevant circumstances we do not consider that section 177EA will apply to the scheme involving the issue of CPS by IAG. This conclusion is consistent with the Commissioner's position in CR 2011/84. IAG has applied for a Class Ruling from the Commissioner seeking confirmation that section 177EA does not apply to the scheme involving the issue of CPS. As at the date of this taxation summary, the Class Ruling has not yet been published by the Commissioner. It is expected that the Commissioner will publish a favourable Class Ruling, ruling that section 177EA does not apply to the scheme involving the issue of CPS, although publication may not occur until after the date that the CPS are issued. However, we expect a draft Class Ruling will be provided by the Commissioner prior to the Closing Date for the General Offer in respect of CPS.

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1.3 Conversion of CPS

Each CPS will be a "CGT asset" under the capital gains tax provisions of the Tax Act. The Terms provide that conversion of a CPS constitutes a variation of the status of, and rights attaching to, the CPS so that it becomes an Ordinary Share. There is no cancellation, redemption or termination of the CPS or the issue, allotment or creation of a new share in that circumstance. Accordingly, Conversion of a CPS to an Ordinary Share should not result in a CGT event happening to the Holder.

In accordance with the Terms, each Holder will be allotted an additional number of Ordinary Shares upon Conversion. The additional Ordinary Shares will be issued for no consideration. For capital gains tax purposes in determining the cost base to the Holder of the Ordinary Shares the Holder now holds, the cost base of the converted CPS will be spread across both the Ordinary Share into which it is converted and these additional Ordinary Shares. The Ordinary Shares will be taken to have been acquired by the Holder at the time that the CPS was acquired by the Holder.

1.4 Disposal of the CPS (prior to Conversion)

A sale or other disposal of a CPS by the Holder will result in a CGT event happening to the Holder. A capital gain would arise to the extent of any excess of capital proceeds received from the sale or disposal of the CPS over the cost base of the CPS to the Holder. The cost base of the CPS would include the amount paid by the Holder to acquire the CPS (whether upon issue by IAG or purchase from a previous Holder) as well as the costs associated with the acquisition and disposal of the CPS (such as brokerage) incurred by the Holder.

If the Holder is an individual or trust (other than a trust that is a complying superannuation fund) and has held the CPS for at least 12 months prior to disposing of it, the Holder will only be required to include one-half of their capital gain (after reduction by any available capital loss) in their assessable income. If the Holder is a complying superannuation fund and has held the CPS for at least 12 months, only two-thirds of their capital gain (after reduction by any available capital loss) is included in assessable income. Conversely, a capital loss could arise where the capital proceeds are less than the cost base of the CPS.

1.5 Redemption, buying back or cancellation of the CPS

A CGT event will happen to a Holder if IAG redeems, buys back or cancels a CPS under the Terms. The comments above regarding the disposal of the CPS prior to Conversion also apply to the redemption, cancellation or buying back of the CPS. As a Holder will receive the Face Value if IAG redeems, it is unlikely that a Holder that acquires a CPS upon issue by IAG (as opposed to a Holder who acquires the CPS from a previous Holder) would incur a capital gain or loss in that circumstance.

1.6 Application of Division 230

Division 230 of the Tax Act contains tax-timing rules for certain taxpayers in relation to recognising gains and losses from "financial arrangements". The CPS will be "equity interests" for income tax purposes and will therefore be "financial arrangements" for the purposes of Division 230 (section 230-50).

Division 230 does not apply to certain taxpayers. It generally does not apply to Holders who are individuals, or to certain other entities (for example, superannuation funds and managed investment schemes) which meet various turnover or asset thresholds, unless they elect for Division 230 to apply to all of their "financial arrangements".

SECTION 8
AUSTRALIAN TAXATION SUMMARY CONTINUED

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Furthermore, gains and losses made from equity interests will only be subject to Division 230 in limited circumstances. More specifically, if Division 230 does generally apply to a Holder, Division 230 provides that the accruals, realisation, foreign exchange retranslation and, generally, the hedging financial arrangement methods do not apply to gains or losses from a financial arrangement that is an equity interest, such as the CPS. Therefore, only the fair value or the financial reports elective methods may potentially apply to an investment in the CPS, but this will depend upon the Holder's individual circumstances, including whether the Holder has made a relevant election.

1.7 Provision of Tax File Number or Australian Business Number

Where a Holder has provided IAG with their tax file number (**TFN**), or in certain circumstances their Australian Business Number (**ABN**), or is otherwise exempt from providing this information, no amount of tax should be withheld by IAG from payments of Dividends to the Holder.

You do not have to provide this information and it is not an offence if you fail to do so. However IAG will be required to withhold Australian tax at the maximum marginal tax rate (currently 46.5% including the Medicare levy) from any Dividend payment that is not 100% franked, and remit the amount withheld to the Australian Taxation Office, unless and until you provide your TFN, (in certain circumstances) your ABN or proof of some other exception. A Holder should be entitled to claim a tax credit/rebate (as applicable) in respect of any tax withheld on a dividend payment in their Australian income tax returns.

2 Income tax consequences of exchanging reset preference shares

Certain holders of reset preference shares previously issued by IAG ("**RPS**") may fund their acquisition of CPS by electing to exchange their RPS for an amount (the "**Buy-Back Price**") comprising the face value of the RPS ($100) ("**capital component**") and any accrued dividend entitlements ("**dividend component**"). The capital component will be applied on the RPS holder's behalf to acquire CPS.

The income tax implications for each RPS holder in respect of the exchange should be as follows:

(a) a CGT event will happen to an RPS holder upon exchange of their RPS. The capital component of the Buy-Back Price will be treated as consideration for capital gains tax purposes. This means that a capital gain would arise to the extent of any excess of the capital component over the cost base of the RPS to the RPS holder. As the capital component will be equal to the face value of the RPS, it is unlikely that an RPS holder that acquired an RPS upon issue by IAG (as opposed to an RPS holder who acquires the RPS from a previous holder) would incur a capital gain or loss in that circumstance.

If the RPS holder does derive a capital gain upon exchange of their RPS, the CGT discount, discussed above regarding the disposal of the CPS prior to Conversion, may be available in circumstances where the RPS holder acquired the RPS at least 12 months prior to the exchange.

(b) the dividend component will be included in the RPS holder's assessable income as a dividend. To the extent that the dividend component is franked, the RPS Holder will also be required to include in their assessable income the attached franking credits.

Subject to the comments above regarding "qualified persons", an RPS holder who is an individual or a complying superannuation entity may be entitled to tax offsets based on the franking credits attached to the dividend component, or to a tax refund to the extent that the tax offsets exceed the tax that is otherwise payable by the RPS holder.

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If an RPS holder is a company, a franking credit should arise in its franking account to the extent that the dividend component is franked, subject to the comments above regarding "qualified persons".

The application of the "qualified person" rules will depend upon the particular circumstances of each RPS holder. Accordingly, RPS holders should obtain independent tax advice as to whether they will be treated as a "qualified person" in relation to the dividend component of the Buy-Back Price received in respect of their RPS.

3 Goods and Services Tax (GST)

No Australian GST should be payable on the issue, disposal or redemption of CPS as the supply of CPS should be a "financial supply" and is therefore input taxed. Further, the Conversion of the CPS to an Ordinary Share will not constitute a taxable supply and no GST will be payable on this event.

4 Stamp duty

No stamp duty should be payable on the buy-back of RPS from an RPS holder, or upon Application for CPS.

IAG proposes to apply to the ASX for official quotation of the CPS. Accordingly, while the CPS are quoted on the ASX, stamp duty will not be payable on a transfer of the CPS.

Yours faithfully

King & Wood Mallesons

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SECTION 9

Key people, interests and benefits

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SECTION 9
KEY PEOPLE, INTERESTS AND BENEFITS

This Section provides information about the Board of Directors of IAG, the interests of people involved in the Offer and any benefits they may receive.

9.1 BOARD

DIRECTOR/POSITION	EXPERIENCE, QUALIFICATIONS AND EXPERTISE

Brian Schwartz AM
FCA, FAICD
Chairman and Independent Non-executive Director
	– Brian Schwartz was appointed a director of IAG in January 2005 and became chairman in August 2010. Brian is a member and former chairman of the IAG Nomination, Remuneration & Sustainability Committee and is also chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with Royal Automobile Club of Victoria (RACV) Limited. He is a member of the IAG Diversity Working Group.
	– Brian is a non-executive director of Brambles Limited, the deputy chairman of Westfield Group Limited, the deputy chairman of Carindale Property Trust and the deputy chairman of the board of Football Federation Australia Limited.
	– Brian was the chief executive of Investec Bank (Australia) Ltd from 2005 to 2009. Previously, he was with Ernst & Young Australia from 1979 to 2004, becoming its chief executive in 1998. He was a member of Ernst & Young's global board and managing partner of the Oceania region.
	– Brian was appointed a Member of the Order of Australia in 2004 for his services to business and the community. He was previously a member of the Federal Government's Australian Multicultural Advisory Council and in 2001 he was named Leading CEO for the Advancement of Women by the Equal Opportunity for Women in the Workplace Agency.
	– Directorships of other listed companies held in past three years:
	  – Brambles Limited since 13 March 2009;
	  – Westfield Group, including Westfield Management Limited (which acts as the responsible entity of Carindale Property Trust) since 6 May 2009; and
	  – IAG Finance (New Zealand) Limited (a part of the Group) since 26 August 2010.

Michael Wilkins BCom, MBA, DLi, FCA, FAICD *Managing Director and Chief Executive Officer*	– Michael Wilkins was appointed as Managing Director and Chief Executive Officer in May 2008, after holding the position of chief operating officer and director of IAG since November 2007. He is chairman of the IAG Diversity Working Group. – Michael has more than 25 years' experience in the insurance and financial services sector and is a director of the Australian Government's Financial Sector Advisory Council. – Michael was formerly the managing director of Promina Group Limited (1999-2007) and managing director of Tyndall Australia Limited (1994-1999). He is a former director and president of the Insurance Council of Australia and a former director of the Investment and Financial Services Association (now the Financial Services Council). – He is currently a non-executive director of Maple-Brown Abbott Limited and a former non-executive director of Alinta Limited. – Directorships of other listed companies held in past three years: – IAG Finance (New Zealand) Limited (a part of the Group) since 28 May 2008.
Yasmin Allen BCom, FAICD *Independent Non-executive Director*	– Yasmin Allen was appointed as a director of IAG in November 2004. She is chairman of the IAG Nomination, Remuneration & Sustainability Committee and a member (and former chairman) of the IAG Audit, Risk Management & Compliance Committee. Yasmin served six years on the board of Export Finance and Insurance Corporation. – Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Cochlear Limited, chairman of Macquarie Specialised Asset Management, a national director of the Australian Institute of Company Directors and a member of the Salvation Army advisory board. Previous non-executive director roles include Export Finance and Insurance Corporation and Film Australia. – Yasmin was formerly a vice president at Deutsche Bank AG, a director at ANZ Investment Bank in Australia and an associate director at James Capel UK Ltd (HSBC Group). – Directorships of other listed companies held in past three years: – Cochlear Limited since 2 August 2010.

DIRECTOR/POSITION	EXPERIENCE, QUALIFICATIONS AND EXPERTISE
Peter Bush BA, FAMI *Independent Non-executive Director*	– Peter Bush was appointed as a director of IAG in December 2010. He is a member of the IAG Audit, Risk Management & Compliance Committee. – Peter has extensive experience in marketing, brands and consumer behaviour gained through a career spanning more than 30 years in the fast moving consumer goods and retail industries. He was McDonald's Australia Limited's managing director & CEO and president for Pacific, Middle East and Africa (2005-2010) and chief operating officer (2002-2005). Previously, he held senior roles with Arnott's Biscuits Limited, Pioneer International Limited (Ampol/Caltex), Samuel Taylor (Reckitt & Coleman plc) and Johnson & Johnson Australia and was chief executive officer of AGB McNair and Schwarzkopf Australia & New Zealand. – Peter is a non-executive director of Pacific Brands Limited and the chairman of Nine Entertainment Holdings Pty Ltd, and previously served on the boards of McDonald's Australia Limited, Lion Nathan Limited, Miranda Wines Pty Limited (now McGuigan Wines) and Frucor Beverages Group Limited (now Danone). – Directorships of other listed companies held in past three years: – Pacific Brands Limited since 3 August 2010.

Phillip Colebatch
BE (Hons), BSc, DBA, SM
Independent Non-executive Director
	– Phillip Colebatch was appointed as a director of IAG in January 2007. He is a member of the IAG Nomination, Remuneration & Sustainability Committee.
	– Phillip has served on the group executive boards of Swiss Re and Credit Suisse Group.
	– Prior to joining Swiss Re as division head, capital management and advisory, he spent 17 years with Credit Suisse Group where, in addition to his executive board position, he served as chief financial officer of Credit Suisse Group and then chief executive officer of Credit Suisse Asset Management. He has also served as head of European banking activities for Credit Suisse First Boston. Phillip began his career with Citicorp in New York and has held a number of senior investment banking roles at Citicorp in Asia and the UK.
	– Phillip is a non-executive director of Lend Lease Corporation Limited and Man Group plc. He is also a member of the board of trustees of the LGT Group Foundation and the Prince of Liechtenstein Foundation.
	– Directorships of other listed companies held in past three years:
	  – Lend Lease Corporation Limited since 1 December 2005; and
	  – Man Group plc since 1 September 2007.

Hugh Fletcher
BSc/BCom, MCom (Hons), MBA
Independent Non-executive Director
	– Hugh Fletcher was appointed as a director of IAG in September 2007 and as a director of IAG New Zealand Board in July 2003. He is a member of the IAG Audit, Risk Management & Compliance Committee.
	– Hugh was formerly chairman (and independent director since December 1998) of New Zealand Insurance Limited and CGNU Australia.
	– Hugh is also the deputy chairman of the Reserve Bank of New Zealand, a non-executive director of Fletcher Building Limited, 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. Hugh retired from an executive position in December 1997 after 28 years as an executive, 11 of which he served as chief executive.
	– Directorships of other listed companies held in past three years:
	  – Fletcher Building Limited since 31 January 2001;
	  – 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.

SECTION 9
KEY PEOPLE, INTERESTS AND BENEFITS CONTINUED

DIRECTOR/POSITION	EXPERIENCE, QUALIFICATIONS AND EXPERTISE
Anna Hynes BSc (Hons), MBA *Independent Non-executive Director*	– Anna Hynes was appointed as a director of IAG in September 2007. She is a member of the IAG Nomination, Remuneration & Sustainability Committee and was formerly a member of the IAG Audit, Risk Management & Compliance Committee. Anna was formerly a non-executive director of Promina Group Limited. – Anna has over 20 years' experience in general management and marketing roles in financial services and consumer products companies. She has worked in the UK, Asia and the USA, as well as Australia and New Zealand. – Anna spent most of her executive career at American Express where she held a number of senior positions, most recently country head, New Zealand. – Anna was also an adjunct professor and member of the Executive Council at the University of Technology Business School, Sydney. – Anna was formerly a non-executive director of Country Road Limited. – Directorships of other listed companies held in past three years: – none.
Philip Twyman BSc, MBA, FAICD *Independent Non-executive Director*	– Philip Twyman was appointed as a director of IAG in July 2008. He is chairman of the IAG Audit, Risk Management & Compliance Committee. – 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. – Overall, Philip has had over 20 years of both board and executive level general insurance experience. – Philip is on the advisory board of Swiss Re (Australia). He was formerly an independent non-executive director of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with Royal Automobile Club of Victoria (RACV) Limited between April 2007 and July 2008. – Philip is also on the board of Perpetual Limited, Medibank Private Limited and Tokio Marine Management (Australasia) Pty Ltd. – Directorships of other listed companies held in past three years: – Perpetual Limited since November 2004.

9.2 INTERESTS AND BENEFITS

9.2.1 Directors

The Directors as at the date of this Prospectus had the following relevant interests in issued securities of IAG:

Directors	Number of Ordinary Shares	Number of options/rights over Ordinary Shares
Brian Schwartz AM	98,738	–
Michael Wilkins	1,038,826	3,447,740
Yasmin Allen	39,011	–
Peter Bush	–	–
Phillip Colebatch	46,692	–
Hugh Fletcher	72,627	–
Anna Hynes	40,242	–
Philip Twyman	57,780	–

Other than as set out in this Prospectus, no Director or proposed Director holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of IAG;
- the Offer; or
- any property acquired or proposed to be acquired by IAG in connection with the formation or promotion of IAG or the Offer.

Other than as set out in this Prospectus, no amount (whether in cash, Ordinary Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any Director or proposed Director:

- to induce a person to become, or qualify as, a Director; or
- for services provided by a Director or proposed Director in connection with the formation or promotion of IAG or the Offer.

Directors' fees

The Constitution contains provisions about the remuneration of the Directors. As remuneration for their services as Directors, the non-executive Directors are paid an amount of remuneration determined by the Board, subject to a maximum annual aggregate amount determined by Shareholders in a general meeting. The maximum annual aggregate amount has been set at $2,750,000 (excluding retirement benefit payments). Each Director may also be paid additional remuneration for performance of additional services and is entitled to reimbursement of reasonable out-of-pocket expenses. The remuneration of the Managing Director and Chief Executive Officer may be fixed by the Board. The remuneration may consist of salary, bonuses or any other elements but must not be a commission on or percentage of profits or operating revenue.

Participation in the Offer

The Directors (and certain related persons) may collectively acquire up to 0.2% of the CPS offered under the Offer without Shareholder approval (subject to certain conditions) – see Section 10.7.

9.2.2 Professionals

Goldman Sachs, Macquarie, National Australia Bank, UBS and Westpac have acted as Joint Lead Managers to the Offer, in respect of which they will receive fees from IAG. The estimated aggregate fees payable by IAG to the Joint Lead Managers are approximately $9 million (exclusive of GST), making certain assumptions as to the allocations of CPS between the Broker Firm Offer, Institutional Offer, Reinvestment Offer and General Offer. The aggregate fees include a structuring fee split equally between UBS and Macquarie and a joint lead manager fee split equally amongst the Joint Lead Managers.

The Joint Lead Managers are responsible for paying all selling fees and other commissions payable to the Syndicate Brokers. IAG has agreed to pay select institutional investors a small amount in cornerstone fees.

King & Wood Mallesons has acted as IAG's Australian legal and tax adviser in relation to the Offer, has prepared the Australian taxation summary in Section 8 and has performed corporate advisory work in connection with the RPS. In respect of this work, King & Wood Mallesons will be paid approximately $525,000 (excluding disbursements and GST) for work performed by it until the date of the Original Prospectus. Further amounts may be paid to King & Wood Mallesons in accordance with its time-based charges.

KPMG TS Pty Limited has acted as IAG's accounting adviser and provided due diligence services on certain financial disclosures in relation to the Offer. In respect of this work, KPMG TS Pty Limited will be paid approximately $100,000 (excluding disbursements and GST) for work performed by it up until the date of the Original Prospectus. Further amounts may be paid to KPMG TS Pty Limited in accordance with its time-based charges.

Except as set out in this Prospectus, no:

- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus; or
- Joint Lead Manager,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of IAG;
- the Offer; or
- any property acquired or proposed to be acquired by IAG in connection with the formation or promotion of IAG or the Offer, nor has anyone paid or agreed to pay or given or agreed to give any benefit to such persons in connection with the formation or promotion of IAG or the Offer.

9.3 EXPENSES OF THE OFFER

The total expenses of the Offer will be paid out of the proceeds of the Offer. Assuming the Offer raises $350 million, then the net proceeds of the Offer are expected to be $340 million and the total expenses of the Offer (including fees payable to the Joint Lead Managers, legal, accounting, tax, marketing, administrative fees, as well as printing, advertising and other expenses related to this Prospectus and the Offer and cornerstone fees) are expected to be $10 million. All of these expenses have been, or will be, borne by IAG.

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SECTION 10

Additional information

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SECTION 10
ADDITIONAL INFORMATION

This Section provides information about a number of other matters not covered elsewhere in this Prospectus.

10.1 REPORTING AND DISCLOSURE OBLIGATIONS

IAG is admitted to the official list of ASX and is a disclosing entity for the purposes of the Corporations Act. As a disclosing entity, it is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. Broadly, these obligations require IAG to prepare both yearly and half yearly financial statements and to report on its operations during the relevant accounting period, and to obtain an audit or review report from its auditor.

Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office.

IAG must ensure that ASX is continuously notified of information about specific events and matters as they arise for the purposes of ASX making the information available to the Australian securities market.

IAG has an obligation under the ASX Listing Rules (subject to certain exceptions) to notify ASX immediately of any information concerning it of which it becomes aware, which a reasonable person would expect to have a material effect on the price or value of its quoted securities.

10.2 AVAILABILITY OF DOCUMENTS

IAG will provide a copy of any of the following documents free of charge to any person upon their written request during the Offer Period:

- the interim financial report for the half year ended 31 December 2011 lodged with ASIC by IAG;
- the annual financial report for the year ended 30 June 2011 lodged with ASIC by IAG;
- any continuous disclosure notices given by IAG in the period after the lodgement of the annual financial report of IAG for the year ended 30 June 2011 and before lodgement of this Prospectus with ASIC; and
- the Constitution.

The financial reports for the half year ended 31 December 2011 and the year ended 30 June 2011, together with copies of continuous disclosure notices lodged with ASX, are available at www.asx.com.au or at www.iag.com.au/shareholder/index.shtml.

The Constitution is available at www.iag.com.au/about/governance/media/iag – constitution.pdf.

All written requests for copies of the above documents should be addressed to the Group General Counsel & Company Secretary of IAG at the address set out in the Corporate directory at the end of this Prospectus.

10.3 RIGHTS AND LIABILITIES ATTACHING TO CPS

The rights and liabilities attaching to CPS are contained in the CPS Terms set out in Appendix A. Rights and liabilities attaching to CPS may also arise under the Corporations Act, the ASX Listing Rules, the Constitution and other laws.

10.4 RIGHTS AND LIABILITIES ATTACHING TO ORDINARY SHARES

CPS Holders may receive Ordinary Shares on Conversion. The rights and liabilities attaching to the Ordinary Shares are set out in the Constitution and are also regulated by the Corporations Act, ASX Listing Rules and the general law.

This Section 10.4 summarises the key rights attaching to the Ordinary Shares. It is not intended to be an exhaustive summary of the rights and obligations of Shareholders. Investors who wish to inspect the Constitution may do so at the registered office of IAG during normal office hours or may obtain a copy as provided under Section 10.2.

10.4.1 Dividend entitlement

Payment of dividends on shares is subject to the Directors determining a dividend to be payable. Directors may only declare a dividend if IAG complies at the time of declaration with APRA's then prevailing prudential standards and if its assets exceed its liabilities by an amount sufficient for payment of the Dividend, that payment is fair and reasonable to Shareholders and payment of the Dividend does not materially prejudice IAG's ability to pay its creditors.

Subject to the rights of any other persons entitled to shares with special dividend rights (such as holders of the CPS), and subject to the terms of any issue of shares to the contrary, all fully paid shares on which any dividend is declared or paid are entitled to participate in the dividend in proportion to the number of shares held, and partly paid shares are entitled to participate pro rata according to the amount paid on the shares.

10.4.2 Voting rights

At any general meeting of IAG, every Shareholder has one vote on a show of hands and one vote for each Ordinary Share held on a poll.

10.4.3 Transferability of Ordinary Shares

While the Ordinary Shares are quoted on ASX, Shareholders will generally be able to sell or transfer shares without restriction. This is subject to the limitations on shareholdings described in Section 5.1.22 in relation to the *Financial Sector (Shareholdings) Act 1998* (Cth), the Corporations Act, ASX Listing Rules and the Directors' ability to decline to register a transfer in certain limited circumstances.

10.4.4 Entitlement of Ordinary Shares on winding-up

Holders of Ordinary Shares are entitled to share in any surplus assets on a winding-up in proportion to the amount of capital paid up. The Constitution also gives Shareholders the right to approve by special resolution various alternative ways in which surplus assets may be dealt with by the liquidator.

10.5 SUMMARY OF THE OFFER MANAGEMENT AGREEMENT

10.5.1 Overview

IAG and the Joint Lead Managers signed an Offer Management Agreement on 19 March 2012. Under the Offer Management Agreement, IAG appointed Goldman Sachs, Macquarie, National Australia Bank, UBS and Westpac as Joint Lead Managers of the Offer. The following is a summary of the principal provisions of the Offer Management Agreement.

Under the Offer Management Agreement, the Joint Lead Managers have agreed to manage the Bookbuild for the Offer. UBS and Macquarie have agreed to provide settlement support for the settlement obligations of confirmed Applicants under the Institutional Offer. Each Joint Lead Manager can and has bid into the Bookbuild and will receive a Broker Firm allocation, and affiliated entities may and will participate in the Institutional Offer or Broker Firm Offer.

10.5.2 Fees

The estimated aggregate fees payable by IAG to the Joint Lead Managers under the Offer Management Agreement are set out in Section 9.2.2. The actual amount payable will not be known until the allotment of CPS under the Offer.

In addition, IAG must reimburse each Joint Lead Manager for reasonable expenses, including reasonable legal and travel costs, incurred by the Joint Lead Managers in relation to the Offer.

10.5.3 Representations, warranties and undertakings

IAG gives various representations, warranties and undertakings to the Joint Lead Managers, including that the documents issued or published by or on behalf of IAG in respect of the Offer and all parts of the Offer comply with all applicable laws, including the Corporations Act and the ASX Listing Rules.

With the exception of the CPS issue and certain other corporate actions (including an issue of shares in the same class as existing Ordinary Shares in IAG), IAG has also agreed that it will not (and will ensure that its controlled entities do not), without the Joint Lead Managers' prior written consent, allot or agree to allot, announce an issue of, indicate an intention to allot, or otherwise authorise the issue of, any Australian dollar denominated hybrid capital securities, notes, debentures, bonds or other debt capital market securities (including any security with Tier 1 Capital status), buy-back of any security of IAG or any scheme of arrangement at any time before 30 June 2012.

10.5.4 Indemnity

IAG agrees to indemnify the Joint Lead Managers and certain parties affiliated with them against all claims, demands, damages, losses, costs, expenses or liabilities incurred by them in connection with the Offer (subject to limited exclusions).

10.5.5 Termination events

Termination events – not subject to materiality

Any Joint Lead Manager may terminate its obligations under the Offer Management Agreement by giving notice to IAG and the other Joint Lead Managers, if any one or more of the following events occurs:

- the credit rating assigned to IAG at the date of the Offer Management Agreement by Standard & Poor's is downgraded or withdrawn or that credit rating is placed on credit watch negative;
- a material contravention by IAG or any other entity in the Group, of the Corporations Act, any APRA guidelines, any ASIC regulatory guides or any legally binding requirement of ASIC, APRA or ASX, its constitution or any of the ASX Listing Rules or other applicable law or regulation or any requirement, order or request, made by or on behalf of ASIC, ASX or any government agency;
- any of the documents issued or published by or on behalf of IAG in respect of the Offer do, or any aspect of the Offer does, not comply with the Corporations Act, the ASX Listing Rules or any other applicable law or regulation;
- IAG issues or, in the reasonable opinion of that Joint Lead Manager, becomes or would be required to issue, a supplementary or replacement prospectus pursuant to section 719 of the Corporations Act (other than this Prospectus) without the prior written consent of the Joint Lead Managers;
- IAG fails to deliver a certificate in accordance with the Offer Management Agreement;
- approval is refused or not granted, other than subject to customary conditions, to the official quotation of all the CPS on ASX on or before the settlement date for CPS to be issued under the Offer, or if granted, the approval is subsequently withdrawn, qualified or withheld (or ASX makes an official statement to any person or indicates to IAG or the Joint Lead Managers that official quotation will not be granted);
- any of the following notifications are made:
  - ASIC issues an order or issues an interim order under section 739 of the Corporations Act other than where that interim order or order does not become public and is withdrawn within two Business days after it is commenced or by 8:00am on the settlement date for CPS to be issued under the Offer (whichever is earlier);
  - an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or the documents issued or published by or on behalf of IAG in respect of the Offer or ASIC commences any investigation or hearing under Part 3 of the *Australian Securities and Investments Commission Act 2001* (Cth) in relation to the Offer or the documents issued or published by or on behalf of IAG in respect of the Offer;
  - any person (other than the Joint Lead Manager seeking to terminate) who has previously consented to the inclusion of its name in the Prospectus (or any supplementary or replacement prospectus) or to be named in the Prospectus withdraws that consent or any other person (other than a Joint Lead Manager) whose consent to the issue of the Prospectus is required by section 716 of the Corporations Act refuses to give their consent; or
  - any person gives a notice under section 730 of the Corporations Act in relation to the documents issued or published by or on behalf of IAG in respect of the Offer;
- IAG withdraws the Original Prospectus or this Prospectus or the Offer;
- a relevant index:
  - falls to a level that is 85% or less than its prescribed starting level at any time up to the settlement date for CPS to be issued under the Offer; or
  - is at or below 90% of the relevant prescribed starting level at the close of trading for any three consecutive Business Days or on any day within the three Business Days prior to the settlement date for CPS to be issued under the Offer;
- the average mid-rate for the iTraxx Australia Index of a term of five years closes 45% or more above the prescribed starting level on two consecutive Business Days;
- a statement contained in the documents issued or published by or on behalf of IAG in respect of the Offer is or becomes misleading or deceptive or is likely to mislead or deceive or otherwise fails to comply with the Corporations Act or any other applicable law, or a matter is omitted from those documents (having regard to the provisions of Part 6D.2 of the Corporations Act);
- IAG or any of its directors or officers (as that term is defined in the Corporations Act), engage in any fraudulent conduct or activity whether or not in connection with the Offer;

SECTION 10
ADDITIONAL INFORMATION CONTINUED

- any licence, permit, authorisation or consent which is material to anything referred to in the documents issued or published by or on behalf of IAG in respect of the Offer or necessary to conduct the business of IAG or any other member of the Group is repealed, revoked, terminated or expires in a manner unacceptable to the Joint Lead Managers acting reasonably;
- a Group member is insolvent (as set out in the Offer Management Agreement) or there is an act or omission made which may result in a Group member becoming insolvent;
- a director of IAG is charged with an indictable offence relating to any financial or corporate matter or fraudulent or misleading or deceptive conduct, or any government agency commences any public action against any of IAG's directors in their capacity as a director of IAG;
- a director of IAG is disqualified from managing a corporation under Part 2D.6 of the Corporations Act;
- IAG is prevented from allotting and issuing the CPS within the time required by the timetable under the Offer Management Agreement, the Corporations Act, ASX Listing Rules, applicable laws, an order of a court of competent jurisdiction or a government agency; or
- there occurs a new circumstance that has arisen since the Prospectus was lodged that would have been required to be included in the Prospectus if it had arisen before the Prospectus was lodged in relation to IAG or any other entity in the Group (other than this Prospectus).

In addition, the Joint Lead Managers may terminate the Offer Management Agreement if a condition precedent to the agreement or to settlement is not satisfied or waived by the relevant time, including but not limited to the Australian Taxation Office issuing (and not withdrawing) a favourable draft class ruling in relation to the Offer and the CPS in a form satisfactory to the Joint Lead Managers (acting reasonably), by 30 April 2012.

Termination events – subject to materiality

Any Joint Lead Manager may also terminate its obligations under the Offer Management Agreement by giving notice to IAG and the other Joint Lead Managers if certain events occur provided that, in the actual and reasonable opinion of that Joint Lead Managers, the event:

- has or is likely to have a material adverse effect on the outcome or success of the Offer or on settlement of the Offer; or
- leads to or is likely to lead to a Joint Lead Manager being involved in a contravention of the Corporations Act or any other applicable law, or incurring a liability under the Corporations Act or any applicable law, regulation, treaty, or certain administrative action.

Subject to the above, any Joint Lead Manager may terminate if any of the following events occur:

- the occurrence of:
  - a suspension or limitation in trading in securities generally on ASX, the New York Stock Exchange, the London Stock Exchange and/or the New Zealand Stock Exchange;
  - a suspension or limitation in trading in IAG's securities on ASX or the New Zealand Stock Exchange (other than a trading halt in connection with the Offer);
  - a general moratorium on commercial banking activities in Australia, New Zealand, the United States or the United Kingdom is declared by the relevant authorities, or there is a material disruption in commercial banking or securities settlement or clearance services in those places; or
  - any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls in Australia, New Zealand, Singapore, Hong Kong, Malaysia, the United States or the United Kingdom;
- there is a tax event (as set out in the Offer Management Agreement);
- any government agency commences any public action against IAG (including a prosecution of, or a hearing or investigation into, IAG), or announces that it intends to take such action;
- hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, the United Kingdom, Indonesia, Malaysia, Japan, Russia or the People's Republic of China, Iraq, North or South Korea, or any member state of the European Union or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries or elsewhere in the world;
- a change in the Board of Directors of IAG occurs or there is a change to the Chief Executive Officer or Chief Financial Officer;
- there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any state of Australia or the Parliament of New Zealand, a new law, or the Reserve Bank of Australia, or any Commonwealth or state or New Zealand authority, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Offer Management Agreement), any of which does or is likely to prohibit or adversely affect the Offer, capital issues or stock markets;
- a default by IAG in the performance or observance of any of its obligations under the Offer Management Agreement occurs;
- a representation or warranty made or given by IAG under the Offer Management Agreement is not true or correct;
- a certificate under the Offer Management Agreement is not true or correct;
- the due diligence report of the due diligence committee in connection with the Offer or any other information supplied by or on behalf of IAG to a Joint Lead Manager in relation to the Group or the Offer is misleading or deceptive (including by omission);
- any adverse change occurs (or becomes known) after lodgement of the Prospectus in the assets, liabilities, financial position or performance, profits, losses or prospects of IAG or the Group, including any adverse change (or prospective adverse change) in the assets, liabilities, financial position or performance, profits, losses or prospects of the Group from those respectively disclosed in the Prospectus or the documents issued or published by, or on behalf of, IAG in respect of the Offer; or
- IAG alters its share capital (other than in a way contemplated in the Prospectus) or its constitution without first obtaining the written consent of the Joint Lead Managers (which will not be unreasonably withheld or delayed).

10.6 AMENDMENTS TO THE TERMS OF THE RPS

To facilitate the Reinvestment Offer, and the final buy-back of the RPS, certain amendments have been made to the terms of the RPS under clause 8 of those terms, effective as of 27 March 2012. Those amendments have been released to ASX and will be notified to RPS holders following the effective date.

The amendments include terms permitting the reinvestment of the RPS under the Reinvestment Offer, earlier than the Reset Date for RPS, payment of the Pro Rata Dividend on the Reinvested RPS and authorisations for IAG and its officers to act on behalf of RPS holders for the purposes of facilitating certain processes authorised under the RPS terms, including the buy-back of the RPS where that is permitted under the terms (as amended).

10.7 CONSENTS

Except as set out below, each of the parties referred to in the following table:

- has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named;
- has not made any statement in this Prospectus or any statement on which a statement made in this Prospectus is based; and
- does not cause or authorise the issue of the Prospectus, and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus.

Role	Consenting parties
Structuring Advisors	Macquarie UBS
Joint Lead Managers	Goldman Sachs National Australia Bank Macquarie UBS Westpac
Australian legal adviser	King & Wood Mallesons
Australian tax adviser	King & Wood Mallesons
Accounting adviser	KPMG TS Pty Limited
Registry	Computershare Investor Services Pty Limited
Auditor	KPMG

King & Wood Mallesons has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Australian tax adviser and for the inclusion of statements by it, consisting of the Australian taxation summary in Section 8 in the form and context in which it appears in Section 8.

KPMG, and to the extent applicable KPMG TS Pty Limited, has given and has not before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as auditor and accounting adviser, respectively, and for the inclusion of statements made by it or based on statements made by it in Section 4 in the form and context in which they appear.

10.8 ASX RELIEF

The Offer

ASX has classified CPS as "equity securities" for the purposes of the ASX Listing Rules and has confirmed that:

- the CPS Terms are appropriate and equitable for the purposes of ASX Listing Rule 6.1;
- ASX Listing Rules 6.3.2 and 6.3.2A have been waived to the extent necessary to permit the CPS Terms to carry the voting rights as set out in the CPS Terms;
- the CPS Terms meet the requirements of ASX Listing Rule 6.5;
- the terms of the APRA constraints in the CPS Terms on the payment of Dividends do not amount to a removal of a right to a dividend for the purposes of ASX Listing Rule 6.10;
- the divestment of CPS from holders, to the extent such divestment occurs as a result of Conversion or Redemption as provided in the CPS Terms, is appropriate and equitable for the purposes of ASX Listing Rule 6.12;
- CPS are not options for ASX Listing Rule purposes;
- Under ASX Listing Rule 7.1.4(c), ASX does not object to IAG, for the purposes of calculating the number of shares that may be issued without prior Shareholder approval, notionally converting CPS into Ordinary Shares based on the market price of Ordinary Shares at the time of issue of CPS;
- ASX Listing Rule 10.11 has been waived to the extent necessary to permit Directors and certain related persons (being the spouses, parents, children and associates of Directors) to participate in the Offer, without Shareholder approval, up to a maximum of 0.2% of the total number of CPS issued under the Offer collectively provided that:
  - the participation of the Directors and certain related persons in the Offer is on the same terms and conditions as applicable to other subscribers for CPS;
  - IAG releases the terms of the waiver to the market when it announces the Offer; and
  - when the CPS are issued, IAG announces to the market the total number of CPS issued to Directors and their related persons in aggregate; and
- the timetables for the Offer and the buy-backs of RPS are acceptable.

ASX has also agreed to allow CPS to trade on a deferred settlement basis for a short time following the issue of CPS and has provided in principle approval of the quotation of CPS.

The Reinvestment Offer

ASX has confirmed in relation to the Reinvestment Offer that:

- the amendments to the RPS terms[18] are appropriate and equitable for the purpose of ASX Listing Rule 6.1;
- the addition of an early redemption right as part of the RPS terms[18] (and corresponding early dividend payment) is permitted under ASX Listing Rule 6.10; and
- the timetable for the Reinvestment Offer is acceptable.

(18) As amended effective as of 27 March 2012.

SECTION 10
ADDITIONAL INFORMATION CONTINUED

10.9 PRIVACY

IAG collects personal information from you in order to process your Application, administer your investment and keep in touch with you about your investment.

IAG may disclose this information on a confidential basis to its subsidiaries, as well as agents, contractors and third party service providers that provide services on its behalf (e.g. the Registry and a printing firm or mailhouse engaged to print and mail statements to you).

If you used a financial adviser who recommended your investment in CPS, then details of your investment may be provided to that adviser.

IAG will also disclose your information if required to do so by law or if you consent to or request the disclosure.

If you think IAG's records of your personal information are incorrect or out of date, it is important that you contact IAG so that your records can be corrected. You may (subject to permitted exceptions) access the personal information IAG holds on you at any time by contacting the Registry in writing. IAG is permitted to charge a fee for such access but does not intend to do so.

You may choose not to give your personal information or to limit the information you provide to IAG. Depending on the type of information you withhold, IAG may not be able to process your Application efficiently (if at all), or make payments to you.

10.10 STATEMENT OF DIRECTORS

This Prospectus is authorised by each Director who consents, and who has not withdrawn their consent, to its lodgement with ASIC and its issue.

APPENDIX A

CPS Terms

APPENDIX A
CPS TERMS

1 CPS

1.1 CPS

CPS are perpetual fully paid preference shares in the capital of Insurance Australia Group Limited (IAG). They are issued, and may be Redeemed or Converted, according to these CPS Terms.

1.2 Issue Price

The issue price of each CPS (**Issue Price**) is $100.

2 DIVIDENDS

2.1 Dividends

Subject to these CPS Terms, each CPS entitles the CPS Holder on a Record Date to receive on the relevant Dividend Payment Date a dividend (**Dividend**) calculated according to the following formula:

$$\textbf{Dividend} = \frac{\textbf{Dividend Rate} \times \$100 \times \textbf{N}}{365}$$

where:

Dividend Rate (expressed as a percentage per annum) is calculated according to the following formula:

Dividend Rate = (**Bank Bill Rate** + **Margin**) x (1 – **T**)

where:

Bank Bill Rate (expressed as a percentage per annum) means, for a Dividend Period, the average mid-rate for bills of a term of 180 days which average mid-rate is displayed on Reuters page BBSW (or any page which replaces that page) on the first Business Day of the Dividend Period or, if there is a manifest error in the calculation of that average mid-rate or that average mid-rate is not displayed by 10:30am (Sydney time) on that date, the rate specified in good faith by IAG at or around that time on that date having regard, to the extent possible, to:

(a) the rates otherwise bid and offered for bills of a term of 180 days or for funds of that tenor displayed on Reuters page BBSW (or any page which replaces that page) at that time on that date; or

(b) if bid and offer rates for bills of a term of 180 days are not otherwise available, the rates otherwise bid and offered for funds of that tenor at or around that time on that date;

Margin (expressed as a percentage per annum) means the margin determined under the Bookbuild; and

T (expressed as a decimal) means the Australian corporate tax rate applicable to the franking account of IAG at the relevant Dividend Payment Date; and

N means in respect of:

(a) the first Dividend Payment Date, the number of days from (and including) the Issue Date until (but not including) the first Dividend Payment Date; and

(b) each subsequent Dividend Payment Date, the number of days from (and including) the preceding Dividend Payment Date until (but not including) the relevant Dividend Payment Date.

2.2 Franking adjustments

If any Dividend is not franked to 100% under Part 3-6 of the Tax Act (or any provisions that revise or replace that Part), the Dividend will be calculated according to the following formula:

$$\textbf{Dividend} = \frac{\textbf{D}}{1 - [\textbf{T} \times (1 - \textbf{F})]}$$

where:

D means the Dividend calculated under clause 2.1;

T has the meaning given in clause 2.1; and

F means the applicable Franking Rate.

2.3 Payment of a Dividend

Each Dividend is subject to:

(a) the Directors, at their absolute discretion, resolving to pay the Dividend on the relevant Dividend Payment Date; and

(b) no APRA Condition existing in respect of the relevant Dividend Payment Date.

2.4 Dividends are non-cumulative

Dividends are non-cumulative. If all or any part of a Dividend is not paid because of clause 2.3 or because of any applicable law, IAG has no liability to pay the unpaid amount of the Dividend and CPS Holders have no claim or entitlement in respect of such non-payment and such non-payment does not constitute an event of default. No interest accrues on any unpaid Dividends and CPS Holders have no claim or entitlement in respect of interest on any unpaid Dividends.

2.5 Dividend Payment Dates

Subject to this clause 2, Dividends will be payable in arrears on the following dates (each a Dividend Payment Date):

(a) each 1 November and 1 May commencing on 1 November 2012 until (but not including) the date on which a Redemption or Conversion of that CPS occurs in accordance with these CPS Terms; and

(b) each date on which:

  (i) a Conversion of that CPS occurs; and

  (ii) subject to clause 8.3(a)(iii), a Redemption of that CPS occurs,

in each case in accordance with these CPS Terms.

If a Dividend Payment Date is a day which is not a Business Day, then the Dividend Payment Date becomes the next day which is a Business Day.

2.6 Record Dates

A Dividend is only payable on a Dividend Payment Date to those persons registered as CPS Holders on the Record Date for that Dividend.

2.7 Deductions

(a) IAG may deduct from any Dividend payable the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. If any such deduction has been made and the amount of the deduction accounted for by IAG to the relevant revenue authority and the balance of the Dividend payable has been paid to the relevant CPS Holder, then the full amount payable to such CPS Holder shall be deemed to have been duly paid and satisfied by IAG.

(b) IAG shall pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring any penalty under the applicable law and shall, if required by any CPS Holder, deliver to that CPS Holder the relevant receipt issued by the revenue authority without delay after it is received by IAG.

2.8 Restrictions in the case of non-payment

If for any reason a Dividend has not been paid in full on a Dividend Payment Date (the Relevant Dividend Payment Date), IAG must not, without approval of a Special Resolution, until and including the next Dividend Payment Date:

(a) resolve to pay or pay a dividend or make any distribution on any Ordinary Shares; or

(b) buy back or reduce capital on any Ordinary Shares,

unless the Dividend is paid in full within three Business Days of the Relevant Dividend Payment Date.

2.9 Exclusions from restrictions in case of non-payment

The restrictions in clause 2.8 do not apply to:

(a) repurchases (including buy-backs), or other acquisitions of Ordinary Shares in connection with:

  (i) any employment contract, employee share scheme, performance rights plan, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants of IAG or any Controlled Entity;

  (ii) a dividend reinvestment plan, bonus option plan, bonus share plan, shareholder share purchase plan or top-up facility, shareholder sale facility or nominee sale facility; or

  (iii) the issuance of Ordinary Shares, or securities convertible into or exercisable for such shares, as consideration in an acquisition transaction entered into prior to non-payment of the Dividend;

(b) an exchange or conversion of any Ordinary Shares, or any securities of a Subsidiary or of any other entity whose financial results are required to be consolidated with IAG's financial statements, for or into any class or series of IAG Shares;

(c) the purchase of fractional interests in Ordinary Shares under the conversion or exchange provisions of the shares or the security being converted or exchanged;

(d) any payment, distribution or declaration of a dividend in connection with any shareholder's rights plan, or the issuance of rights, shares or other property under any shareholder's rights plan, or the redemption or repurchase of rights pursuant to the plan;

(e) any dividend in the form of shares, warrants, options or other rights where the dividend shares or the shares issuable upon exercise of such warrants, options or other rights are the same class or series of shares as those on which the dividend is being paid or rank equal to or behind those shares; or

(f) a capital raising by way of a rights or entitlement issue made to holders of one or more capital instruments of IAG.

Nothing in these CPS Terms prohibits IAG or a Controlled Entity from purchasing IAG Shares (or an interest therein) in connection with transactions for the account of customers of IAG or customers of entities that IAG Controls or in connection with the distribution or trading of IAG Shares in the ordinary course of business. This includes (for the avoidance of doubt and without affecting the foregoing) any acquisition resulting from acting as trustee for another person where neither IAG nor any entity it Controls has a beneficial interest in the trust (other than a beneficial interest that arises from a security given for the purposes of a transaction entered into in the ordinary course of business).

3 MANDATORY CONVERSION

3.1 Mandatory Conversion

Subject to clause 4, clause 5 and clause 6 on the Mandatory Conversion Date IAG must Convert all (but not some) CPS on issue at that date into Ordinary Shares in accordance with clause 7 and this clause 3.

3.2 Mandatory Conversion Date

The Mandatory Conversion Date will be the earlier of:

(a) 1 May 2019 (the Scheduled Mandatory Conversion Date); and

(b) the first Dividend Payment Date after the Scheduled Mandatory Conversion Date (a **Subsequent Mandatory Conversion Date**),

(each a **Relevant Date**) on which the Mandatory Conversion Conditions are satisfied.

3.3 Mandatory Conversion Conditions

The Mandatory Conversion Conditions for each Relevant Date are:

(a) the VWAP on the 25th Business Day immediately preceding (but not including) the Relevant Date (the **First Test Date**, provided that if no trading in Ordinary Shares took place on that date, the First Test Date is the first Business Day before the 25th Business Day immediately preceding (but not including) the Relevant Date on which trading in Ordinary Shares took place) is greater than the First Test Date Percentage of the Issue Date VWAP (the **First Mandatory Conversion Condition**);

(b) the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Relevant Date (the **Second Test Period**) is greater than the Conversion Test Date Percentage of the Issue Date VWAP (the **Second Mandatory Conversion Condition**); and

(c) no Delisting Event applies in respect of the Relevant Date (the **Third Mandatory Conversion Condition** and, together with the First Mandatory Conversion Condition and the Second Mandatory Conversion Condition, the **Mandatory Conversion Conditions**).

In this clause 3.3:

Conversion Test Date Percentage = 101.01% x **Relevant Fraction** (expressed as a percentage)

First Test Date Percentage = 115% x **Relevant Fraction** (expressed as a percentage)

APPENDIX A
CPS TERMS CONTINUED

3.4 Non-Conversion Notices

If:

(a) the First Mandatory Conversion Condition is not satisfied in relation to a Relevant Date, IAG will give notice to CPS Holders between the 25th and the 21st Business Day before the Relevant Date; or

(b) the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition is not satisfied in relation to a Relevant Date, IAG will give notice to CPS Holders on or as soon as practicable after the Relevant Date,

(each such notice a **Non-Conversion Notice**) that Mandatory Conversion will not (or, as the case may be, did not) occur on the Relevant Date.

4 NON-VIABILITY CONVERSION

4.1 Non-Viability Trigger Event

A **Non-Viability Trigger Event** means APRA has provided a written determination to IAG that all (or some) CPS (as specified in the determination) must be Converted:

(a) as without the Conversion IAG would become, in APRA's opinion, non-viable; or

(b) as there is to occur a public sector injection of capital into, or equivalent capital support with respect to, IAG without which IAG would become, in APRA's opinion, non-viable.

4.2 Non-Viability Trigger Event Notice

(a) If a Non-Viability Trigger Event occurs:

  (i) IAG must give notice of that event (a **Non-Viability Trigger Event Notice**) to CPS Holders within one Business Day of that event occurring;

  (ii) IAG must state in that notice a date on which the CPS (or, as the case may be, the relevant number of CPS) will Convert (the **Non-Viability Conversion Date**) being no later than the Business Day after the earliest date allowable for Conversion under the ASX Listing Rules following the date the Non-Viability Trigger Event Notice is given; and

  (iii) subject to clause 4.3(c), on the Non-Viability Conversion Date the CPS (or, as the case may be, the relevant number of CPS) will Convert.

(b) If APRA has provided a written determination under clause 4.1 that requires IAG to Convert only some CPS, IAG must endeavour to treat CPS Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels and other logistical considerations.

4.3 Priority of Conversion Obligations

(a) Conversion on account of the occurrence of a Non-Viability Trigger Event is not subject to the matters described in clause 3.3 as Mandatory Conversion Conditions.

(b) A Conversion required on account of a Non-Viability Trigger Event takes place on the date, and in the manner, required by clause 4.2, notwithstanding anything in clauses 3.1, 5 or 6.

(c) Subject to clause 4.3(d), if on the Non-Viability Conversion Date an Inability Event subsists, then to the extent such event prevents IAG from Converting CPS, Conversion on account of the Non-Viability Trigger Event will not occur and clause 7.13 ("Write Down") shall apply.

(d) If before the Non-Viability Conversion Date an order is made by a court, or an effective resolution is passed, for the winding-up of IAG, then Conversion on account of the Non-Viability Trigger Event will not occur and clause 9.2 shall apply.

5 OPTIONAL EXCHANGE BY IAG

5.1 Optional Exchange by IAG

IAG may with APRA's prior written approval by notice to CPS Holders (an **Exchange Notice**) elect to Exchange:

(a) all or some CPS on an Exchange Date following the occurrence of a Tax Event or a Regulatory Event;

(b) all (but not some only) CPS on an Exchange Date following the occurrence of a Potential Acquisition Event; or

(c) all or some CPS on an Optional Exchange Date.

An Exchange Notice under this clause 5:

  (i) cannot be given in the period of 20 Business Days preceding (and not including) the Mandatory Conversion Date where the First Mandatory Conversion Condition has been met in respect of that Mandatory Conversion Date; and

  (ii) once given is irrevocable.

5.2 Contents of Exchange Notice

An Exchange Notice must specify:

(a) where clause 5.1(a) or clause 5.1(b) applies, the details of the Potential Acquisition Event, Tax Event or Regulatory Event to which the Exchange Notice relates;

(b) the date on which Exchange is to occur (the **Exchange Date**), which:

  (i) in the case of a Potential Acquisition Event:

    (A) if the Exchange Notice provides that CPS are to be Converted, is the Business Day prior to the date reasonably determined by IAG to be the last date on which holders of Ordinary Shares can participate in the bid or scheme concerned or such other earlier date as IAG may reasonably determine having regard to the timing for implementation of the bid or scheme concerned; or

    (B) otherwise, must be no later than 35 Business Days after the date on which the Potential Acquisition Event occurred,

or in either case such later date as APRA may require;

(ii) in the case of a Tax Event or a Regulatory Event, will be the last Business Day of the month following the month in which the Exchange Notice was given by IAG unless IAG determines an earlier Exchange Date having regard to the best interests of CPS Holders as a whole and the relevant event; or

(iii) in the case of an Optional Exchange Date, the date specified in the notice which must fall:

(A) no earlier than:

(aa) 25 Business Days, where the Exchange Method elected is, or includes, Conversion; or

(ab) 15 Business Days, where the Exchange Method is Redemption, and

(B) in any case no later than 50 Business Days,

after the date on which the Exchange Notice is given;

(c) the Exchange Method in accordance with clause 5.3;

(d) if less than all outstanding CPS are subject to Exchange, which CPS are subject to Exchange;

(e) if the Exchange Notice provides that any CPS are to be Redeemed, whether the Redemption Price is payable by way of redemption, buy-back or reduction of capital (or a combination of these methods); and

(f) whether any Dividend or any amount under clause 8.3(a)(iii) will be paid on the Exchange Date.

5.3 Exchange Method

(a) If IAG elects to Exchange CPS in accordance with clause 5.1, it must, subject to paragraph (b) and clause 5.4 and subject to APRA's prior written approval, elect which of the following (or which combination of the following) it intends to do in respect of CPS (the **Exchange Method**):

(i) Convert CPS into Ordinary Shares in accordance with clause 7; or

(ii) Redeem CPS in accordance with clause 8.

CPS Holders should not expect that APRA's approval will be given for any Exchange of CPS under the CPS Terms.

(b) The Exchange Method must not be Redemption unless:

(i) in the case of a Potential Acquisition Event, the Potential Acquisition Event has occurred on or after the fifth anniversary of the Issue Date; and

(ii) in any case, either:

(A) CPS the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality; or

(B) APRA is satisfied that the Group's capital position is well above its minimum capital requirements after IAG elects to Redeem the CPS.

(c) If IAG issues an Exchange Notice to Exchange only some CPS, subject to clause 5.3(d) IAG must endeavour to treat CPS Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels and other logistical considerations.

(d) In selecting a combination of Exchange Methods where all or some CPS are being Exchanged IAG may take into account any preference of particular CPS Holders for the Exchange Method which is to apply to some or all of their CPS (but nothing in this clause entitles a CPS Holder to determine the Exchange Method).

5.4 Restrictions on election by IAG of Conversion as Exchange Method

IAG may not elect Conversion as the Exchange Method in respect of an Exchange under this clause 5 or clause 6 if:

(a) on the second Business Day before the date on which an Exchange Notice is to be sent by IAG (or, if trading in Ordinary Shares did not occur on that date, the last Business Day prior to that date on which trading in Ordinary Shares occurred) (the **Non-Conversion Test Date**) the VWAP on that date is less than or equal to the First Test Date Percentage of the Issue Date VWAP (the **First Optional Conversion Restriction**); or

(b) a Delisting Event applies in respect of the Non-Conversion Test Date (the **Second Optional Conversion Restriction** and, together with the First Optional Conversion Restriction, the **Optional Conversion Restrictions**).

5.5 Conditions to Conversion occurring once elected by IAG

If IAG has given an Exchange Notice in which it has elected Conversion as the Exchange Method but, if the Exchange Date were a Relevant Date for the purposes of clause 3, either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then, notwithstanding any other provision of these CPS Terms:

(a) the Exchange Date will be deferred until the first Dividend Payment Date on which the Mandatory Conversion Conditions would be satisfied if that Dividend Payment Date were a Relevant Date for the purposes of clause 3 (the **Deferred Conversion Date**);

(b) IAG must Convert the CPS on the Deferred Conversion Date (unless the CPS are earlier Exchanged in accordance with these CPS Terms); and

(c) until the Deferred Conversion Date, all rights attaching to the CPS will continue as if the Exchange Notice had not been given.

IAG will notify CPS Holders on or as soon as practicable after an Exchange Date in respect of which this clause 5.5 applies that Conversion did not occur on that Exchange Date (a **Deferred Conversion Notice**).

APPENDIX A
CPS TERMS CONTINUED

6 EARLY EXCHANGE ON ACQUISITION EVENT

6.1 Notice of Acquisition Event

IAG must notify CPS Holders of the occurrence of an Acquisition Event as soon as practicable after becoming aware of that event (an **Acquisition Event Notice**).

6.2 Exchange on occurrence of Acquisition Event

If an Acquisition Event occurs, IAG must, subject to obtaining the prior written approval of APRA for any Redemption, Exchange all (but not some only) CPS on the Acquisition Exchange Date by notice to CPS Holders (an **Acquisition Exchange Notice**) in accordance with this clause 6 and clause 7 or clause 8 (as the case may be).

CPS Holders should not expect that APRA's approval will be given to any Redemption of CPS under the CPS Terms.

6.3 Contents of Acquisition Exchange Notice

An Acquisition Exchange Notice must specify:

(a) the details of the Acquisition Event to which the Acquisition Exchange Notice relates;

(b) the date on which Exchange is to occur (the **Acquisition Exchange Date**), which must be:

  (i) if the Exchange Notice provides that CPS are to be Converted, the Business Day prior to the date reasonably determined by IAG to be the last date on which holders of Ordinary Shares can participate in the bid or scheme concerned or such other earlier date as IAG may reasonably determine having regard to the timing for implementation of the bid or scheme concerned; or

  (ii) otherwise, no later than 35 Business Days after the date on which the Acquisition Event occurred,

  or in either case such later date as APRA may require;

(c) the Exchange Method, subject:

  (i) to the extent Redemption is specified, to the Acquisition Event having occurred on or after the fifth anniversary of the Issue Date and the condition in clause 5.3(b)(ii) being met; and

  (ii) to the extent Conversion is specified, to clause 5.4;

(d) if the Acquisition Exchange Notice provides that any CPS are to be Redeemed, whether the Redemption Price is payable by way of redemption, buy-back or reduction of capital (or a combination of these methods); and

(e) whether any Dividend or any amount under clause 8.3(a)(iii) will be paid on the Acquisition Exchange Date.

6.4 Where Acquisition Exchange Notice not required

Notwithstanding any other provision of clause 6.2 or clause 6.3, if APRA does not approve Redemption as the Exchange Method (or IAG is not permitted to elect Redemption in accordance with clause 6.3(c)) and IAG is prevented from electing Conversion as the Exchange Method by clause 5.4, IAG is not required to give an Acquisition Exchange Notice and the provisions of clause 6.5 will apply.

6.5 Deferred Exchange on Acquisition Event

If clause 6.4 applies or IAG has given an Acquisition Exchange Notice in which it has specified to any extent Conversion as the Exchange Method but, if the Acquisition Exchange Date were a Relevant Date for the purposes of clause 3, the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then, notwithstanding any other provision of these CPS Terms (but without limitation to the operation of clause 4.3):

(a) the Acquisition Exchange Notice, if given, is taken to be revoked and Exchange will not occur on the Acquisition Exchange Date specified in the Acquisition Exchange Notice;

(b) IAG will notify CPS Holders as soon as practicable that Exchange will not (or, as the case may be, did not) occur (a **Deferred Acquisition Exchange Notice**); and

(c) IAG must, unless clause 6.4 then applies, give an Acquisition Exchange Notice (or, as the case may be, a new Acquisition Exchange Notice) on or before the 25th Business Day prior to the immediately succeeding Dividend Payment Date which is at least 25 Business Days after the date on which the Deferred Acquisition Exchange Notice was given.

The Acquisition Exchange Notice given in accordance with paragraph (c) above must:

(d) specify the Exchange Method, subject:

  (i) to the extent Redemption is specified, to the prior written approval of APRA and the conditions referred to in clause 6.3(c) being met; and

  (ii) to the extent Conversion is specified, to clause 5.4; and

(e) otherwise comply with clause 6.3.

If this clause 6.5 applies but:

  (i) clause 6.4 applies in respect of the Dividend Payment Date such that no Acquisition Exchange Notice (or, as the case may be, no new Acquisition Exchange Notice) is given under this clause 6.5; or

  (ii) an Acquisition Exchange Notice (or, as the case may be, a new Acquisition Exchange Notice) is given under this clause 6.5 but, if the Acquisition Exchange Date specified in the Acquisition Exchange Notice were a Relevant Date for the purpose of clause 3, either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date,

then this clause 6.5 will be reapplied in respect of each subsequent Dividend Payment Date until an Exchange occurs.

7 CONVERSION MECHANICS

7.1 Conversion

If IAG elects to Convert CPS (with APRA's prior written approval) or must Convert CPS in accordance with these CPS Terms, then, subject to this clause 7, the following provisions apply:

(a) each CPS that is being Converted will Convert into one Ordinary Share on the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Exchange Date (as the case may be);

(b) each CPS Holder will be allotted, for no consideration, an additional number of Ordinary Shares for each CPS that is being Converted on the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Exchange Date (as the case may be) equal to **one less than** the Conversion Number, where the Conversion Number is a number calculated according to the following formula (subject to clause 7.12 and subject always to the Conversion Number being no more than the Maximum Conversion Number):

$$\textbf{Conversion Number} = \frac{\textbf{Issue Price}}{99\% \times \textbf{VWAP}}$$

where:

VWAP (expressed in dollars and cents) means the VWAP during the VWAP Period

and where the Maximum Conversion Number means a number calculated according to the following formula:

$$\text{Maximum Conversion Number} = \frac{\textbf{Issue Price}}{(\textbf{Issue Date VWAP} \times \textbf{Relevant Fraction})}$$

where:

Relevant Fraction means 0.5 or, once the Australian Basel III Rules are implemented and CPS Holders have been notified in writing by IAG that such other percentage is to be applied, 0.2 (or the lowest other fraction less than 0.5 as is permitted by APRA under the Australian Basel III Rules).

(c) if the total number of additional Ordinary Shares to be allotted to a CPS Holder in respect of their aggregate holding of CPS upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded; and

(d) a CPS, upon Conversion, confers all of the rights attaching to one Ordinary Share but these rights do not take effect until 5:00pm (Sydney time) on the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Exchange Date (as the case may be). At that time:

(i) all other rights conferred or restrictions imposed on that CPS under these CPS Terms will no longer have effect (except for rights relating to a Dividend which has been determined to be payable but has not been paid on or before the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Exchange Date (as the case may be) which will continue); and

(ii) the Ordinary Share resulting from a Conversion will rank equally with all other Ordinary Shares.

Conversion does not constitute a redemption, buy-back, cancellation or termination of CPS or an issue, allotment or creation of a new Ordinary Share (other than the additional Ordinary Shares allotted under clause 7.1(b)).

7.2 Adjustments to VWAP

For the purposes of calculating VWAP in these CPS Terms:

(a) where, on some or all of the Business Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and CPS will Convert into Ordinary Shares after the date those Ordinary Shares no longer carry that dividend or any other distribution or entitlement, then the VWAP on the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (**Cum Value**) equal to:

(i) (in case of a dividend or other distribution), the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;

(ii) (in the case of any other entitlement that is not a dividend or other distribution under clause 7.2(a)(i) which is traded on ASX on any of those Business Days), the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Business Days on which those entitlements were traded; or

(iii) (in the case of any other entitlement which is not traded on ASX during the VWAP Period), the value of the entitlement as reasonably determined by the Directors; and

(b) where, on some or all of the Business Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and CPS will Convert into Ordinary Shares which would be entitled to receive the relevant dividend or other distribution or entitlement, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value.

APPENDIX A
CPS TERMS CONTINUED

7.3 Adjustments to VWAP for divisions and similar transactions

(a) Where during the relevant VWAP Period there is a change in the number of the Ordinary Shares on issue as a result of a division, consolidation or reclassification of IAG's share capital (not involving any cash payment or other distribution to Ordinary Shareholders) (a **Reorganisation**), in calculating the VWAP for that VWAP Period the daily VWAP applicable on each day in the relevant VWAP Period which falls before the date on which trading in Ordinary Shares is conducted on a post Reorganisation basis shall be adjusted by the following formula:

$$\frac{\mathbf{A}}{\mathbf{B}}$$

where:

A means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

B means the aggregate number of Ordinary Shares immediately after the Reorganisation.

(b) Any adjustment made by IAG in accordance with clause 7.3(a) will be effective and binding on CPS Holders under these CPS Terms and these CPS Terms will be construed accordingly. Any such adjustment must be promptly notified to all CPS Holders.

7.4 Adjustments to Issue Date VWAP

For the purposes of determining the Issue Date VWAP, adjustments to VWAP will be made in accordance with clause 7.2 and clause 7.3 during the VWAP Period for the Issue Date VWAP. On and from the Issue Date, adjustments to the Issue Date VWAP:

(a) may be made in accordance with clauses 7.5 to 7.7 (inclusive); and

(b) if so made, will correspondingly affect the application of the Mandatory Conversion Conditions and the Optional Conversion Restrictions, and cause an adjustment to the Maximum Conversion Number.

7.5 Adjustments to Issue Date VWAP for bonus issues

(a) Subject to clause 7.5(b) below, if IAG makes a pro rata bonus issue of Ordinary Shares to holders of Ordinary Shares generally, the Issue Date VWAP will be adjusted immediately in accordance with the following formula:

$$\mathbf{V} = \mathbf{V_O} \times \frac{\mathbf{RD}}{\mathbf{RD} + \mathbf{RN}}$$

where:

V means the Issue Date VWAP applying immediately after the application of this formula;

$\mathbf{V_O}$ means the Issue Date VWAP applying immediately prior to the application of this formula;

RN means the number of Ordinary Shares issued pursuant to the bonus issue; and

RD means the number of Ordinary Shares on issue immediately prior to the allotment of new Ordinary Shares pursuant to the bonus issue.

(b) Clause 7.5(a) does not apply to Ordinary Shares issued as part of a bonus share plan, employee or executive share plan, executive option plan, share top up plan, share purchase plan or a dividend reinvestment plan.

(c) For the purpose of clause 7.5(a), an issue will be regarded as a pro rata issue notwithstanding that IAG does not make offers to some or all holders of Ordinary Shares with registered addresses outside Australia, provided that in so doing IAG is not in contravention of the ASX Listing Rules.

(d) No adjustments to the Issue Date VWAP will be made under this clause 7.5 for any offer of Ordinary Shares not covered by clause 7.5(a), including a rights issue or other essentially pro rata issue.

(e) The fact that no adjustment is made for an issue of Ordinary Shares except as covered by clause 7.5(a) shall not in any way restrict IAG from issuing Ordinary Shares at any time on such terms as it sees fit nor be taken to constitute a modification or variation of rights or privileges of CPS Holders or otherwise requiring any consent or concurrence.

7.6 Adjustment to Issue Date VWAP for divisions and similar transactions

(a) If at any time after the Issue Date there is a change in the number of Ordinary Shares on issue as a result of a division, consolidation or reclassification of IAG's share capital (not involving any cash payment or other distribution to Ordinary Shareholders) (a Reorganisation), IAG shall adjust the Issue Date VWAP by multiplying the Issue Date VWAP applicable on the Business Day immediately before the date of any such Reorganisation by the following formula:

$$\frac{\mathbf{A}}{\mathbf{B}}$$

where:

A means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

B means the aggregate number of Ordinary Shares immediately after the Reorganisation.

(b) Any adjustment made by IAG in accordance with clause 7.6(a) will be effective and binding on CPS Holders under these CPS Terms and these CPS Terms will be construed accordingly.

(c) Any such adjustment must be promptly notified to all CPS Holders.

(d) Each CPS Holder acknowledges that IAG may consolidate, divide or reclassify securities so that there is a lesser or greater number of Ordinary Shares at any time in its absolute discretion without any such action constituting a modification or variation of rights or privileges of CPS Holders or otherwise requiring any consent or concurrence.

7.7 No adjustment to Issue Date VWAP in certain circumstances
Despite the provisions of clauses 7.5 and 7.6, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than one percent of the Issue Date VWAP then in effect.

7.8 Announcement of adjustments
IAG will notify CPS Holders (an Adjustment Notice) of any adjustment to the Issue Date VWAP or in the Relevant Fraction under this clause 7 within 10 Business Days of IAG determining the adjustment and the adjustment set out in the announcement will be final and binding.

7.9 Ordinary Shares
Each Ordinary Share issued or arising upon Conversion ranks pari passu with all other fully paid Ordinary Shares.

7.10 Foreign CPS Holders
Where CPS held by a Foreign CPS Holder are to be Converted, unless IAG is satisfied that the laws of the Foreign CPS Holder's country of residence permit the issue of Ordinary Shares to the Foreign CPS Holder (but as to which IAG is not bound to enquire), either unconditionally or after compliance with conditions which IAG in its absolute discretion regards as acceptable and not unduly onerous, the Ordinary Shares which the Foreign CPS Holder is obliged to accept will be issued to a nominee who will sell those Ordinary Shares and pay a cash amount equal to the net proceeds received, after deducting any applicable brokerage, stamp duty and other taxes and charges, to the Foreign CPS Holder accordingly.

7.11 Listing Ordinary Shares issued on Conversion
IAG shall use all reasonable endeavours to list the Ordinary Shares issued upon Conversion of the CPS on ASX.

7.12 Adjustment to clause 7.1(b) where Latest Equity Issue Price is available
If CPS are to be Converted on account of a Non-Viability Trigger Event and on the Non-Viability Conversion Date a Delisting Event is subsisting:

(a) where there is a Latest Equity Issue Price, the formula for determining the Conversion Number in clause 7.1(b) is varied by replacing "99% x VWAP" with the price which is the Latest Equity Issue Price; and

(b) where there is no Latest Equity Issue Price, the formula for determining the Conversion Number is the formula in clause 7.1(b),

where:

Latest Equity Issue Price means if, between the last day of the VWAP Period in relation to the Conversion and the Business Day immediately preceding (but not including) the Non-Viability Conversion Date, IAG has publicly announced an issue of Ordinary Shares at a price per Ordinary Share of less than the VWAP that would otherwise apply to the Conversion, that price.

7.13 Write Down
Where on the Non-Viability Conversion Date an Inability Event subsists (unless before the Non-Viability Conversion Date an order is made by a court or an effective resolution is passed for the winding-up of IAG), to the extent such event prevents IAG from Converting CPS which, but for clause 4.3(c) and this clause 7.13, would be Converted, CPS will be Written Down on the Non-Viability Conversion Date. In this clause 7.13 "Written Down" means that, in respect of a CPS and a Non-Viability Conversion Date:

(a) the CPS will not be Converted on that date and will not be Converted or Redeemed under these CPS Terms on any subsequent date (except for a conversion as described in clause 7.13(d));

(b) the rights attached to the CPS are on and from the Non-Viability Conversion Date automatically varied without CPS Holder or Ordinary Shareholder approval such that:

  (i) in a winding-up of IAG, the Liquidation Sum is the sum which would have been paid in respect of the CPS out of the surplus available to shareholders in a winding-up as if the CPS were the Conversion Number of Ordinary Shares; and

  (ii) subject to clause 2.3, 2.4 and 2.7, a non-cumulative dividend is payable in respect of the CPS if and when a dividend is paid on Ordinary Shares, in an amount determined as if the CPS were a number of Ordinary Shares equal to the Conversion Number,

  in each case with that Conversion Number (the Fixed Conversion Number) being finally determined as if the CPS had Converted on the Non-Viability Conversion Date (and subject always to such number not exceeding the Maximum Conversion Number);

(c) on and from that variation taking effect clauses 2.1, 2.2, 2.5, 2.8, 3, 4 (other than clause 4.3(c)), 5, 6, 7 (other than this clause 7.13 and any provisions in clause 7 required to give effect to this clause 7.13) and 8 will no longer apply; and

(d) if after that variation takes effect IAG ceases to be subject to an Inability Event, as soon as reasonably practicable after that occurs IAG shall convert the CPS at that time into the Fixed Conversion Number of Ordinary Shares by Converting the CPS by some other lawful method of effecting conversion.

8 REDEMPTION MECHANICS

8.1 Redemption mechanics to apply to Redemption
If, subject to APRA's prior written approval and compliance with the conditions in clause 5.2(c) and clause 6.3(c), IAG elects to Redeem CPS in accordance with these CPS Terms, the provisions of this clause 8 apply to that Redemption.

CPS Holders should not expect that APRA's approval will be given for any Redemption of CPS under the CPS Terms.

8.2 Redemption
CPS will be Redeemed by payment on the Exchange Date or the Acquisition Exchange Date (as the case may be) of the Issue Price plus any amount payable under clause 8.3(a)(iii) (together, the **Redemption Price**) by way of redemption, buy-back, reduction of capital or any combination thereof to the CPS Holder.

APPENDIX A
CPS TERMS CONTINUED

8.3 Effect of Redemption on CPS Holders

On the Exchange Date or the Acquisition Exchange Date (as the case may be) the only right CPS Holders will have in respect of CPS will be to obtain the Redemption Price payable in accordance with these CPS Terms and upon payment of the Redemption Price, all other rights conferred, or restrictions imposed, by CPS will no longer have effect.

For the purposes of this clause 8:

(a) where the Redemption involves a buy-back of CPS:

  (i) the Exchange Notice or the Acquisition Exchange Notice (as the case may be) constitutes a buy-back offer for the Redemption Price payable on the relevant Exchange Date or Acquisition Exchange Date (as the case may be);

  (ii) 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 or the Acquisition Exchange Notice (as the case may be) relates on the date the Exchange Notice or the Acquisition Exchange Notice (as the case may be) is given and will be deemed to have sold those CPS to IAG free of all Encumbrances on the Exchange Date or the Acquisition Exchange Date (as the case may be);

  (iii) no Dividend is payable on CPS on the Exchange Date or the Acquisition Exchange Date (as the case may be), 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 for the Dividend Period ending on (but not including) the Exchange Date or the Acquisition Exchange Date (as the case may be);

  (iv) the buy-back agreement will be taken to include IAG's undertaking in clause 2.8 (as qualified by clause 2.9); and

  (v) for the purposes of calculating the Redemption Price, any suspension of the right to receive a Dividend arising from the buy-back agreement under applicable law shall be disregarded; and

(b) if the Redemption involves either or both a reduction of capital with respect to CPS and a cancellation of CPS and under applicable law CPS Holders are entitled to vote on a resolution to approve that reduction of capital or that cancellation, each CPS Holder agrees to vote in favour of that or those resolutions.

9 CPS GENERAL RIGHTS

9.1 Ranking

The CPS rank in respect of payment of dividends:

(a) in priority to Ordinary Shares and other instruments or securities of IAG that rank or are expressed to rank behind the CPS;

(b) equally among themselves and with all Equal Ranking Instruments; and

(c) behind any securities or instruments that rank in priority to the CPS and behind all IAG's debts and liabilities to its creditors, both unsubordinated and subordinated, other than indebtedness that by its terms ranks equally with or behind the CPS.

9.2 Ranking in a winding-up

(a) In a winding-up of IAG, a CPS confers upon the CPS Holder the right to payment in cash of the Liquidation Sum out of the surplus (if any) available for distribution to shareholders, but no further or other right to participate in the assets of IAG on a return of capital in the winding-up.

(b) CPS Holders will rank for payment of the Liquidation Sum in a winding-up of IAG:

  (i) in priority to Ordinary Shares and other securities that IAG has issued or may issue that by their terms rank behind the CPS;

  (ii) equally among themselves and with all Equal Ranking Instruments; and

  (iii) behind any securities or instruments that rank in priority to the CPS and behind all IAG's debts and liabilities to its creditors, both unsubordinated and subordinated, other than indebtedness that by its terms ranks equally with or behind the CPS in a winding-up.

(c) The **Liquidation Sum** is an amount out of surplus assets equal to $100 plus the amount of any Dividend determined to be paid but unpaid.

9.3 Further issues not to vary class rights

The allotment or issue of preference shares (including further CPS), or the conversion of existing shares into preference shares, ranking behind, equally with or in priority to the CPS then on issue for participation in profits or assets of IAG, and whether entitled to cumulative or non-cumulative dividends, or a redemption, buy-back or return or distribution of capital in respect of any share capital other than a CPS, whether ranking behind, equally with, or in priority to, the CPS, is expressly permitted and authorised by these CPS Terms and does not constitute a modification or variation of the rights or privileges to the CPS then on issue.

9.4 No set-off or offsetting rights

A CPS Holder:

(a) may not exercise any right of set-off against IAG in respect of any claim by IAG against that CPS Holder; and

(b) will have no offsetting rights or claims on IAG if IAG does not pay a Dividend when scheduled under CPS.

IAG may not exercise any right of set-off against a CPS Holder in respect of any claim by that CPS Holder against IAG.

9.5 No security

CPS are unsecured.

9.6 Shortfall on winding-up

If, upon a return of capital on a winding-up of IAG, there are insufficient funds to pay in full the Liquidation Sum and the amounts payable in respect of any other shares in IAG ranking equally with CPS on a winding-up of IAG, CPS Holders and the holders of any such other shares will share in any distribution of assets of IAG in proportion to the amounts to which they are entitled respectively.

9.7 No participation in surplus assets
CPS do not confer on their CPS Holders any further right to participate in the surplus assets of IAG on a winding-up beyond payment of the Liquidation Sum.

9.8 Power of attorney
(a) Each CPS Holder appoints each of IAG, its officers and any External Administrator of IAG (each an **Attorney**) severally to be the attorney of the CPS Holder with power in the name and on behalf of the CPS Holder to sign all documents and transfers and do any other thing as may in the Attorney's opinion be necessary or desirable to be done in order for the CPS Holder to observe or perform the CPS Holder's obligations under these CPS Terms including, but not limited to, accepting any buy-back offer, effecting any transfers of CPS, making any entry in the Register or exercising any voting power in relation to any consent or approval required for Conversion or Redemption.
(b) The power of attorney given in this clause 9.8 is given for valuable consideration and to secure the performance by the CPS Holder of the CPS Holder's obligations under these CPS Terms and is irrevocable.

9.9 CPS Holder acknowledgements
Each CPS Holder irrevocably:
(a) upon Conversion of a CPS in accordance with clause 7, consents to becoming a member of IAG and agrees to be bound by the Constitution, in each case in respect of the Ordinary Shares issued on Conversion;
(b) acknowledges and agrees that it is obliged to accept Ordinary Shares upon a Conversion notwithstanding anything that might otherwise affect a Conversion of CPS including:
  (i) any change in the financial position of IAG since the Issue Date;
  (ii) any disruption to the market or potential market for the Ordinary Shares or to capital markets generally; or
  (iii) any breach by IAG of any obligation in connection with CPS;
(c) acknowledges and agrees that:
  (i) where clause 4.2 applies, there are no other conditions to a Non-Viability Conversion occurring as and when provided in clauses 4.1 to 4.3 (inclusive);
  (ii) the only conditions to a Mandatory Conversion are the Mandatory Conversion Conditions;
  (iii) the only conditions to a Conversion on account of an Exchange under clause 5 or clause 6 are the conditions expressly applicable to such Conversion as provided in clauses 5 and 6 of these CPS Terms and no other conditions or events will affect Conversion; and
  (iv) where clause 7.13 applies, no other conditions or events will affect the operation of that clause;
(d) agrees to provide to IAG any information necessary to give effect to a Conversion and, if applicable, to surrender any certificate relating to the CPS on the occurrence of the Conversion; and
(e) acknowledges and agrees that:
  (i) a CPS Holder has no right to request an Exchange;
  (ii) a CPS Holder has no right to apply for IAG to be wound up, or placed in administration, or to cause a receiver, or a receiver and manager, to be appointed in respect of IAG merely on the grounds that IAG does not pay a Dividend when scheduled in respect of CPS; and
  (iii) these CPS Terms contain no events of default. Accordingly (but without limitation) failure to pay in full, for any reason, a Dividend on the scheduled Dividend Payment Date will not constitute an event of default.

9.10 No other rights
(a) CPS do not confer on CPS Holders any right to participate in profits or property of IAG except as set out in these CPS Terms.
(b) CPS do not confer on CPS Holders any right to subscribe for new securities in IAG or to participate in any bonus issues of shares in IAG's capital.

9.11 Transfers and transmission
The Constitution contains provisions relating to:
(a) the transfer of shares; and
(b) the transmission of shares in certain circumstances (including without limitation on the death of a holder),

and the relevant provisions apply with all necessary modifications to a transfer of CPS.

10 VOTING RIGHTS AND MEETINGS

10.1 Voting rights
CPS Holders will not be entitled to vote at any general meeting of IAG except in the following circumstances:
(a) on a proposal:
  (i) to reduce the capital of IAG, other than a resolution to approve a Redemption;
  (ii) that affects rights attached to CPS;
  (iii) to wind up IAG; or
  (iv) for the disposal of the whole of the property, business and undertaking of IAG;
(b) on a resolution to approve the terms of a buy-back agreement other than a resolution to approve a Redemption;
(c) during a period in which a Dividend or part of a Dividend is in arrears; or
(d) during the winding-up of IAG.

Each CPS Holder who has a right to vote on a resolution is entitled to the number of votes specified in Article 11.23 of the Constitution (or any provision or provisions that revise or replace that Article).

10.2 Notices and reports
Each CPS Holder is entitled to receive notice of any general meeting of IAG and a copy of every circular and like document sent out by IAG to Ordinary Shareholders and to attend and speak at general meetings of IAG.

APPENDIX A
CPS TERMS CONTINUED

11 TAKEOVERS AND SCHEMES OF ARRANGEMENT

If:

(a) a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors; or

(b) the Directors recommend a scheme of arrangement in respect of the Ordinary Shares of IAG which will result in a person other than IAG having a relevant interest in more than 50% of the Ordinary Shares,

in each case which would result in an Acquisition Event then, if the Directors consider that IAG will not be permitted to elect to Exchange the CPS in accordance with clause 5 or clause 6 or the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition will not be satisfied in respect of the Acquisition Exchange Date in accordance with clause 6, the Directors will use all reasonable endeavours to procure that equivalent takeover offers are made to CPS Holders or that they are entitled to participate in the scheme of arrangement or a similar transaction.

12 NOTICES

12.1 Notices to CPS Holders

A notice or other communication is properly given by IAG to a CPS Holder if it is:

(a) in writing signed on behalf of IAG (by original or printed signature);

(b) addressed to the person to whom it is to be given; and

(c) either:

  (i) delivered personally;

  (ii) sent by pre-paid mail to that person's address;

  (iii) sent by fax to the fax number (if any) nominated by that person; or

  (iv) sent by electronic message to the electronic address (if any) nominated by that person.

12.2 Delivery of certain notices

Notwithstanding clause 12.1, a Non-Conversion Notice, a Deferred Conversion Notice, a Deferred Acquisition Exchange Notice, an Exchange Notice, an Acquisition Event Notice, an Acquisition Exchange Notice, a Non-Viability Trigger Event Notice, an Adjustment Notice and an IAG Details Notice may each be given to CPS Holders by IAG publishing the notice on its website and announcing the publication of the notice to ASX.

12.3 When notices to CPS Holders take effect

Notices or other communications from IAG to CPS Holders take effect on the day the notice or communication was delivered, sent or published on IAG's website (as applicable under clauses 12.1 and 12.2).

12.4 Non-receipt of notice by a CPS Holder

The non-receipt of a notice or other communication by a CPS Holder or an accidental omission to give notice to a CPS Holder will not invalidate the giving of that notice either in respect of that CPS Holder or generally.

12.5 Notices to IAG

A notice or other communication given to IAG in connection with CPS must be:

(a) in legible writing or typing and in English;

(b) addressed as shown below:

  Attention: Group General Counsel and Company Secretary
  Address: Insurance Australia Group Limited
  Level 26, 388 George Street
  Sydney NSW 2000
  Fax No: +61 2 9292 8072

  or to such other address or fax number as IAG notifies to CPS Holders as its address or fax number (as the case may be) for notices or other communications in respect of these CPS Terms from time to time (an **IAG Details Notice**);

(c) signed by the person making the communication or by a person duly authorised by that person; and

(d) delivered or posted by prepaid post, or sent by fax to the fax number in accordance with clause 12.5(b).

12.6 When notices to IAG take effect

Notices or other communications from CPS Holders to IAG take effect from the time they are received unless a later time is specified in them.

12.7 Deemed receipt of notices to IAG

A letter or facsimile is taken to be received:

(a) in the case of a posted letter, on the third (seventh if posted to or from a place outside Australia) day after posting; and

(b) in the case of a facsimile, on production of a transmission report by the machine from which the facsimile was sent which indicates that the facsimile was sent in its entirety to the facsimile number of the recipient.

Despite paragraphs (a) or (b), if a letter or facsimile is received after 5:00pm in the place of receipt or on a day which is not a Business Day, it is taken to be received at 9.00am on the next Business Day.

13 PAYMENTS AND OTHER MATTERS

13.1 Manner of payment to CPS Holders

All monies payable by IAG to a CPS Holder may be paid in any manner IAG decides, including:

(a) by any method of direct credit determined by IAG to the CPS Holder or CPS Holders shown on the Register or to such person or place directed by them;

(b) by cheque sent through the post directed to the physical or postal address of the CPS Holder as shown in the Register or, in the case of joint CPS Holders, to the physical or postal address notified to the Registrar for receipt of such monies (and in default of notification, to the physical or postal address shown in the Register as the address of the joint CPS Holder first named in that Register); or

(c) by cheque sent through the post directed to such other physical or postal address as the CPS Holder or joint CPS Holders in writing direct.

13.2 Unpresented cheques
Cheques issued by IAG that are not presented within six months of being issued or such lesser period as determined by IAG may be cancelled. Where a cheque which is cancelled was drawn in favour of a CPS Holder, the monies are to be held by IAG for the CPS Holder as a non-interest bearing deposit or paid by IAG according to the legislation relating to unclaimed monies.

13.3 Unsuccessful attempts to pay
Subject to applicable law and the ASX Listing Rules, where IAG:

(a) decides that an amount is to be paid to a CPS Holder by a method of direct credit and the CPS Holder has not given a direction as to where amounts are to be paid by that method; or

(b) attempts to pay an amount to a CPS Holder by direct credit, electronic transfer of funds or any other means and the transfer is unsuccessful; or

(c) has made reasonable efforts to locate a CPS Holder but is unable to do so,

the amount is to be held by the payer for the CPS Holder as a non-interest bearing deposit until the CPS Holder or any legal personal representative of the CPS Holder claims the amount. If monies or equivalent securities payable to the CPS Holder under the CPS have not been claimed by the CPS Holder or any legal personal representative of the CPS Holder for a period of 12 months after first becoming payable, those monies or equivalent securities shall become the property of IAG.

13.4 Payment to joint CPS Holders
A payment to any one of joint CPS Holders will discharge IAG's liability in respect of the payment.

13.5 Time limit for claims
A claim against IAG for payment according to these CPS Terms is void, to the fullest extent permitted by applicable law, unless made within five years of the due date for payment.

13.6 Calculations and rounding of payments
Unless otherwise specified in these CPS Terms:

(a) all calculations of amounts payable in respect of a CPS will be rounded to four decimal places; and

(b) for the purposes of making payment to a CPS Holder in respect of the CPS Holder's aggregate holding of CPS, any fraction of a cent will be disregarded.

14 AMENDMENT OF THESE CPS TERMS

14.1 Amendment without consent
Subject to complying with all applicable laws and with APRA's prior written approval, IAG may amend these CPS Terms without the approval of CPS Holders:

(a) if IAG is of the opinion that the amendment:

  (i) is of a formal, minor or technical nature;

  (ii) is made to cure any ambiguity or correct any manifest error;

  (iii) is expedient for the purpose of enabling CPS to be listed or to remain listed on a securities exchange (including, without limitation, in connection with any change in the principal securities exchange on which Ordinary Shares are listed) or lodged in a clearing system or to remain lodged in a clearing system or to be offered for sale or for subscription under the laws for the time being in force in any place;

  (iv) is necessary to comply with the provisions of any statute or the requirements of any statutory authority;

  (v) is made in accordance with IAG's adjustment rights in clause 7; or

  (vi) amends any date or time period stated, required or permitted in connection with any Mandatory Conversion, Non-Viability Conversion or Exchange in a manner necessary or desirable to facilitate the Mandatory Conversion, Non-Viability Conversion or Exchange (including without limitation where in connection with the Exchange the proceeds of Redemption are to be reinvested in a new security to be issued by an IAG Entity); or

(b) generally, in any case where in IAG's opinion such amendment is not likely (taken as a whole and in conjunction with all other amendments or actions, if any, to be made at or about the time of that amendment) to be materially prejudicial to the interests of CPS Holders as a whole.

14.2 Amendment with consent
Without limiting clause 14.1, IAG may, with APRA's prior written approval, amend these CPS Terms if the amendment has been approved by a Special Resolution.

14.3 Notification of Amendment to APRA
IAG will promptly notify APRA of any amendments made in accordance with this clause 14.

14.4 Meaning of amend and amendment
In this clause 14, amend includes modify, cancel, alter or add to and amendment has a corresponding meaning.

15 QUOTATION ON ASX

IAG must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure, at its own expense, quotation of CPS on ASX.

16 GOVERNING LAW AND JURISDICTION

16.1 Governing law
These CPS Terms are governed by the laws in force in New South Wales.

16.2 Jurisdiction
IAG and each CPS Holder submits to the non-exclusive jurisdiction of the courts of New South Wales for the purpose of any legal proceedings arising out of these CPS Terms.

17 INTERPRETATION AND DEFINITIONS

17.1 Interpretation

(a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these CPS Terms and the Constitution then, to the maximum extent permitted by law, the provisions of these CPS Terms will prevail.

(b) Unless otherwise specified, the Directors may exercise all powers of IAG under these CPS Terms as are not, by the Corporations Act or by the Constitution, required to be exercised by IAG in general meeting.

(c) Unless otherwise specified, a reference to a clause is a reference to a clause of these CPS Terms.

APPENDIX A
CPS TERMS CONTINUED

(d) If a calculation is required under these CPS Terms, unless the contrary intention is expressed, the calculation will be rounded to four decimal places.

(e) Subject to clause 17.1(a), definitions and interpretation under the Constitution will also apply to these CPS Terms unless the contrary intention is expressed.

(f) The terms takeover bid, relevant interest, scheme of arrangement, buy-back, related body corporate and on-market buy-back when used in these CPS Terms have the meaning given in the Corporations Act.

(g) Headings and boldings are for convenience only and do not affect the interpretation of these CPS Terms.

(h) The singular includes the plural and vice versa.

(i) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

(j) If an event under these CPS Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.

(k) A reference to dollars, AUD, A$, $ or cents is a reference to the lawful currency of Australia.

(l) Any reference to any requirements of APRA or any other prudential regulatory requirements in these CPS Terms will apply or be operative with respect to IAG only if IAG is an entity, or the holding company of an entity, or is a direct or indirect subsidiary of a holding company, which is subject to regulation and supervision by APRA at the relevant time.

(m) Any requirement for APRA's consent or approval in any provision of these CPS Terms will apply only if APRA requires that such consent or approval be given at the relevant time.

(n) A reference to any term defined by APRA (including, without limitation, "Level 2", "Minimum Capital Requirement" "Residual Tier 1 Capital", "Tier 1 Capital", and "Upper Tier 2 Capital") shall, if that term is replaced or superseded in any of APRA's applicable prudential regulatory requirements or standards, be taken to be a reference to the replacement or equivalent term.

(o) A reference to a term defined by the ASX Listing Rules or the ASX Operating Rules shall, if that term is replaced in those rules, be taken to be a reference to the replacement term.

(p) If the principal securities exchange on which Ordinary Shares are listed becomes other than ASX, unless the context otherwise requires a reference to ASX shall be read as a reference to that principal securities exchange and a reference to the ASX Listing Rules, ASX Operating Rules or any term defined in any such rules, shall be read as a reference to the corresponding rules of that exchange or corresponding defined terms in such rules (as the case may be).

(q) Calculations, elections and determinations made by IAG under these CPS Terms are binding on CPS Holders in the absence of manifest error.

(r) Where IAG is required to give or serve a notice by a certain date under these CPS Terms, IAG is required to despatch the notice by that date (including at IAG's discretion, by posting or lodging notices with a mail house) and delivery or receipt (or deemed delivery) is permitted to occur after that date.

(s) Where a CPS Holder is required to give or deliver a notice to IAG by a certain date under these CPS Terms, the notice must be received by IAG by that date.

17.2 Definitions for CPS Terms

Acquisition Event means:

(a) a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and:

  (i) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or

  (ii) the Directors issue a statement that at least a majority of its directors who are eligible to do so recommend acceptance of the offer (which may be stated to be in the absence of a higher offer); or

(b) a court approves a scheme of arrangement which, when implemented, will result in a person other than IAG having a relevant interest in more than 50% of the Ordinary Shares,

and all regulatory approvals necessary for the acquisition to occur have been obtained.

Acquisition Event Notice has the meaning given in clause 6.1.

Acquisition Exchange Date has the meaning given in clause 6.3.

Acquisition Exchange Notice has the meaning given in clause 6.2.

Adjustment Notice has the meaning given in clause 7.8.

APRA means the Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of IAG or the Group.

APRA Condition means, with respect to a Dividend payment on the CPS on a Dividend Payment Date:

(a) unless APRA otherwise approves in writing:

  (i) paying the Dividend on the CPS on the Dividend Payment Date would result in the Minimum Capital Requirement of the Group not complying with APRA's then current capital adequacy guidelines as they are applied to the Group at the time; or

  (ii) the Dividend payment on the CPS on the Dividend Payment Date would exceed Distributable Profits as at the Record Date for the Dividend payment;

(b) paying the Dividend would result in IAG becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or

(c) APRA objecting to the Dividend payment on the CPS on the payment date.

ASX means ASX Limited (ABN 98 008 624 691).

ASX Listing Rules means the listing rules of ASX as amended, varied or waived (whether in respect of IAG or generally) from time to time.

ASX Operating Rules means the market operating rules of ASX as amended, varied or waived (whether in respect of IAG or generally) from time to time.

Attorney has the meaning given in clause 9.8.

Australian Basel III Rules means the final form of prudential rules applied to entities regulated by APRA resulting from the Basel III Consultation Papers.

Bank Bill Rate has the meaning given in clause 2.1.

Basel III Consultation Papers means the document "Basel III: A global regulatory framework for more resilient banks and banking systems" released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and any related releases, papers, proposals (including, without limitation, the release of 13 January 2011) and any related prudential standards or guidelines of the Basel Committee on Banking Supervision or APRA as applicable to general insurers and their authorised non-operating holding companies (including, without limitation, APRA's Response to Submissions in relation to the Review of capital standards for general insurers and life insurers dated 9 December 2011).

Bookbuild means the process conducted prior to the opening of the Offer whereby certain investors lodge bids for CPS and, on the basis of those bids, IAG and the joint lead managers to the Offer determine the Margin.

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

CHESS means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Collection of Data Act means the *Financial Sector (Collection of Data) Act 2001* (Cth).

Constitution means the constitution of IAG as amended from time to time.

Control has the meaning given in the Corporations Act.

Controlled Entity means, in respect of IAG, an entity IAG Controls.

Conversion means, in relation to a CPS, subject to amendment in accordance with clause 14.1(a)(v), the taking effect of the rights specified in clause 7 in relation to that CPS, and Convert and Converted have corresponding meanings.

Conversion Number has the meaning given in clause 7.1(b).

Conversion Test Date Percentage has the meaning given in clause 3.3.

Corporations Act means the *Corporations Act 2001* (Cth).

CPS has the meaning given in clause 1.1.

CPS Holder means a person whose name is registered as the holder of a CPS.

CPS Terms means these terms of issue of CPS.

Cum Value has the meaning given in clause 7.2.

Deferred Acquisition Exchange Notice has the meaning given in clause 6.5.

Deferred Conversion Date has the meaning given in clause 5.5.

Deferred Conversion Notice has the meaning given in clause 5.5.

Delisting Event means, in respect of a date, that:

(a) Ordinary Shares ceased to be listed or admitted to trading on ASX on or before that date (and where the cessation occurred before that date, Ordinary Shares continue not to be listed or admitted to trading on that date);

(b) trading of Ordinary Shares on ASX is suspended for a period of consecutive days which includes:

  (i) at least five consecutive Business Days prior to that date; and

  (ii) that date; or

(c) an Inability Event subsists.

Directors means some or all of the directors of IAG acting as a board.

Distributable Profits means the Group's after-tax earnings determined in a manner consistent with the Group's prudential reporting to APRA under the Collection of Data Act (but determined before any interest, dividends or distributions paid or payable by a member of the Group on its Tier 1 Capital or Upper Tier 2 Capital) for the last two six monthly periods for which the Group was required to submit semi-annual returns according to reporting standards made under the Collection of Data Act less the aggregate amount of interest, dividends or other distributions paid or payable by a member of the Group on its Tier 1 Capital or Upper Tier 2 Capital (including any Dividend but not including a dividend or distribution paid or payable to a member of the Group by another member of the Group) in the 12 month period up to and including the relevant Dividend Payment Date.

Dividend has the meaning given in clause 2.1.

Dividend Payment Date has the meaning given in clause 2.5 whether or not a Dividend is paid on that date.

Dividend Period means in respect of:

(a) the first Dividend Period, the period from (and including) the Issue Date until (but not including) the first Dividend Payment Date following the Issue Date; and

(b) each subsequent Dividend Period, the period from (and including) the preceding Dividend Payment Date until (but not including) the next Dividend Payment Date.

Dividend Rate has the meaning given in clause 2.1.

Encumbrance means any mortgage, pledge, charge, lien, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement, any other security agreement or security arrangement (including any security interest under the *Personal Property Securities Act 2009* (Cth)) and any other arrangement of any kind having the same effect as any of the foregoing other than liens arising by operation of law.

APPENDIX A
CPS TERMS CONTINUED

Equal Ranking Instruments means, in respect of the payment of dividends or the return of capital in a winding-up:

(a) RPS;

(b) RES Preference Shares (if issued) and, in a winding-up of IAG, the claim of a holder of RES against IAG in respect of any failure by IAG to issue RES Preference Shares as required by the RES Terms;

(c) each other preference share that IAG may issue that ranks or is expressed to rank equally with the foregoing and the CPS in respect of dividend or for the return of capital in a winding-up of IAG (as the case may be); and

(d) any securities or other instruments that rank or are expressed to rank in respect of dividend or for the return of capital in a winding-up (as the case may be) equally with those preference shares and the CPS.

Exchange means Conversion in accordance with and subject to clause 7 or Redemption in accordance with and subject to clause 8, and **Exchanged** has a corresponding meaning.

Exchange Date has the meaning given in clause 5.2(b).

Exchange Method has the meaning given in clause 5.3.

Exchange Notice has the meaning given in clause 5.1.

External Administrator means, in respect of a person:

(a) a liquidator, a provisional liquidator, an administrator or a statutory manager of that person; or

(b) a receiver, or a receiver and manager, in respect of all or substantially all of the assets and undertaking of that person,

or in either case any similar official.

First Mandatory Conversion Condition has the meaning given in clause 3.3.

First Optional Conversion Restriction has the meaning given in clause 5.4.

First Test Date has the meaning given in clause 3.3.

First Test Date Percentage has the meaning given in clause 3.3.

Fixed Conversion Number has the meaning given in clause 7.13(b).

Foreign CPS Holder means a CPS Holder whose address in the Register is a place outside Australia or who IAG otherwise believes may not be a resident of Australia.

Franking Rate (expressed as a decimal) means the franking percentage (within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that Part) applicable to the franking account of IAG at the relevant Dividend Payment Date.

Group means the group comprised of each IAG Entity which is treated by APRA as forming the Level 2 insurance group of IAG.

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

IAG Details Notice has the meaning given in clause 12.5.

IAG Entity means IAG and each of its related bodies corporate.

IAG Shares means Ordinary Shares or any other shares in the capital of IAG.

Inability Event means IAG is prevented by applicable law or order of any court or action of any government authority (including regarding the insolvency winding-up or other external administration of IAG) or any other reason from Converting the CPS.

Issue Date means the date on which CPS are issued.

Issue Date VWAP means the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the first date on which any CPS were issued, as adjusted in accordance with clauses 7.4 to 7.7 (inclusive).

Issue Price has the meaning given in clause 1.2.

Latest Equity Issue Price has the meaning given in clause 7.12.

Level 2 means a level 2 insurance group as defined by APRA from time to time.

Liquidation Sum has the meaning given in clause 9.2(c) (as it may be affected by clause 7.13).

Mandatory Conversion means the mandatory conversion under clause 3 of CPS to Ordinary Shares on the Mandatory Conversion Date.

Mandatory Conversion Conditions has the meaning given in clause 3.3.

Mandatory Conversion Date has the meaning given in clause 3.2.

Margin has the meaning given in clause 2.1.

Maximum Conversion Number has the meaning given in clause 7.1(b).

Minimum Capital Requirement means that requirement as defined by APRA from time to time, or any successor requirement as designated by APRA.

Non-Conversion Notice has the meaning given in clause 3.4.

Non-Conversion Test Date has the meaning given in clause 5.4.

Non-Viability Conversion means the Conversion of CPS to Ordinary Shares on the Non-Viability Conversion Date in accordance with clause 4.2.

Non-Viability Conversion Date has the meaning given in clause 4.2.

Non-Viability Trigger Event has the meaning given in clause 4.1.

Non-Viability Trigger Event Notice has the meaning given in clause 4.2.

Offer means the invitation under the Prospectus made by IAG for persons to subscribe for CPS.

Optional Conversion Restrictions has the meaning given in clause 5.4.

Optional Exchange Date means the first Dividend Payment Date falling on or after the fifth anniversary of the Issue Date and any date after that date as specified in an Exchange Notice.

Ordinary Share means a fully paid ordinary share in the capital of IAG.

Ordinary Shareholder means a person whose name is registered as the holder of an Ordinary Share.

Potential Acquisition Event means:

(a) an event within paragraph (a) of the definition of Acquisition Event occurs (without the need that all regulatory approvals necessary for the acquisition to occur have been obtained); or

(b) a court orders the holding of meetings to approve a scheme of arrangement under Part 5.1 of the Corporations Act and the scheme would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented.

Prospectus means the prospectus for the Offer including these CPS Terms.

Record Date means for payment of:

(a) a Dividend, the date which is seven calendar days before the Dividend Payment Date for that Dividend (or, in the case of the first Dividend Payment Date, if the Issue Date is less than seven calendar days before the first Dividend Payment Date, the Issue Date); and

(b) or such other date as may be required by ASX.

Redeem means, in relation to a CPS, redeem, buy back (other than an on-market buy-back within the meaning of the Corporations Act) or reduce capital, or any combination of such activities, in connection with that CPS in accordance with clause 8, and **Redeemed**, **Redeemable** and **Redemption** have corresponding meanings.

Redemption Price has the meaning given in clause 8.2.

Register means the register of CPS maintained by or on behalf of IAG and including any subregister established and maintained in CHESS.

Registrar means IAG or any other registrar that maintains the Register.

Regulatory Event means:

(a) the receipt by the Directors of an opinion from a reputable legal counsel that, as a result of any amendment to, clarification of or change (including any announcement of a prospective change) in any law or regulation or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations (including, without limitation, any such action arising as a result of the Basel III Consultation Paper which applies to IAG or any other member of the Group) which amendment, clarification or change is effective, or pronouncement, action or decision is announced, on or after the Issue Date, additional requirements would be imposed on IAG in relation to or in connection with CPS which the Directors determine, at their absolute discretion, to be unacceptable; or

(b) the determination by the Directors that IAG is not or will not be entitled to treat some or all CPS as Residual Tier 1 Capital (including, without limitation, as a result of the Australian Basel III Rules which apply to IAG or any other member of the Group), except where the reason IAG is not entitled to treat some or all CPS as Residual Tier 1 Capital is because IAG has exceeded a limit on the recognition of Residual Tier 1 Capital which was in effect on the Issue Date (including without limitation a limit arising on or from a given date under the Basel III Consultation Paper which is known as at the Issue Date).

Relevant Date has the meaning given in clause 3.2.

Relevant Dividend Payment Date has the meaning given in clause 2.8.

Relevant Fraction has the meaning given in clause 7.1.

Reorganisation has the meaning given in clauses 7.3(a) and 7.6(a).

Residual Tier 1 Capital means the residual tier 1 capital of the Group as defined by APRA from time to time (and includes a reference to "Additional Tier 1 Capital" as described in the Basel III Consultation Papers).

RES means a perpetual reset note issued by IAG Finance (New Zealand) Limited (ABN 97 111 268 243) (acting through its branch in Auckland, New Zealand) ("IAGFNZ") as constituted under the RES Trust Deed.

RES Preference Shares means fully paid preference shares in the capital of IAG according to the terms of issue as scheduled to the RES Trust Deed.

RES Terms means the terms of issue of RES as scheduled to the RES Trust Deed.

RES Trust Deed means the amended and restated trust deed dated 11 December 2009 relating to RES made between IAGFNZ, IAG and Trust Company Fiduciary Services Limited (ABN 21 000 000 993).

RPS means the reset preference shares issued by IAG according to the terms of issue set out in appendix A of the prospectus dated 6 May 2002.

Scheduled Mandatory Conversion Date has the meaning given in clause 3.2.

APPENDIX A
CPS TERMS CONTINUED

Second Mandatory Conversion Condition has the meaning given in clause 3.3.

Second Optional Conversion Restriction has the meaning given in clause 5.4.

Second Test Period has the meaning given in clause 3.3.

Special Resolution means a resolution passed at a meeting of CPS Holders by a majority of at least 75% of the votes validly cast by CPS Holders in person or by proxy and entitled to vote on the resolution.

Subsequent Mandatory Conversion Date has the meaning given in clause 3.2.

Subsidiary has the meaning given in the Corporations Act.

Tax Act means:

(a) the *Income Tax Assessment Act 1936* (Cth) or the *Income Tax Assessment Act 1997* (Cth) as the case may be and a reference to any Section of the *Income Tax Assessment Act 1936* (Cth) includes a reference to that Section as rewritten in the *Income Tax Assessment Act 1997* (Cth); and

(b) any other Act setting the rate of income tax payable and any regulation promulgated under it.

Tax Event means the receipt by the Directors of an opinion from a reputable legal counsel or other tax adviser in Australia, experienced in such matters to the effect that, as a result of:

(a) any amendment to, clarification of, or change (including any announced prospective change), in the laws or treaties or any regulations of Australia or any political subdivision or taxing authority of Australia affecting taxation;

(b) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (Administrative Action); or

(c) any amendment to, clarification of, or change in, an Administrative Action that provides for a position that differs from the current generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known, which amendment, clarification, change or Administrative Action is effective, or which pronouncement or decision is announced, on or after the Issue Date, there is more than an insubstantial risk which the Directors determine (having received all approvals they consider in their absolute discretion to be necessary (including from APRA)) at their absolute discretion to be unacceptable that:

(i) IAG would be exposed to more than a de minimis increase in its costs (including without limitation through the imposition of any taxes, duties, assessments or other charges) in relation to CPS; or

(ii) any Dividend would not be a frankable dividend or distribution within the meaning of Division 202 of the Tax Act or would give rise to an additional franking debit or Australian tax resident CPS Holders generally would not be entitled to franking credits in respect of the Dividends.

Third Mandatory Conversion Condition has the meaning given in clause 3.3.

Tier 1 Capital means the tier 1 capital of the Group as defined by APRA from time to time.

Upper Tier 2 Capital means the upper tier 2 capital of the Group as defined by APRA from time to time.

VWAP means, subject to any adjustments under clause 7, the average of the daily volume weighted average sale prices (such average being rounded to the nearest full cent) of Ordinary Shares sold on ASX during the relevant period or on the relevant days but does not include any "Crossing" transacted outside the "Open Session State" or any "Special Crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

VWAP Period means:

(a) in the case of a Conversion resulting from a Potential Acquisition Event or an Acquisition Event the lesser of:

(i) 20 Business Days on which trading in Ordinary Shares takes place; and

(ii) the number of Business Days on which trading in Ordinary Shares takes place that the Ordinary Shares are quoted for trading on ASX after the occurrence of the Potential Acquisition Event or Acquisition Event (as the case may be);

in each case immediately preceding (but not including) the Business Day before the Exchange Date or Acquisition Exchange Date in respect of that event (as the case may be);

(b) in the case of a Conversion resulting from a Non-Viability Trigger Event, the period of five Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Non-Viability Conversion Date;

(c) in the case of any other Conversion, the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the date on which Conversion is to occur in accordance with these CPS Terms; or

(d) otherwise, the period for which VWAP is to be calculated in accordance with these CPS Terms.

Written Down has the meaning given in clause 7.13.

APPENDIX B

Glossary

APPENDIX B GLOSSARY

This Appendix provides a glossary of key terms and abbreviations used throughout this Prospectus and the Application Form. There is also a list of further defined terms in clause 17.2 of the CPS Terms immediately prior to this Glossary commentary on page 102.

TERM	MEANING
ABN	Australian Business Number.
Acquisition Event	Broadly, occurs when certain takeover bids or schemes of arrangement occur in relation to IAG. For the full definition – see clause 17.2 of the CPS Terms.
Acquisition Exchange Date	The date on which Exchange as a result of an Acquisition Event is to occur, as discussed in Section 2.7.6. For the full definition – see clause 6.3 of the CPS Terms.
Acquisition Exchange Notice	Has the meaning given in clause 6.2 of the CPS Terms.
Additional Tier 1 Capital	Has the meaning described in the Basel III Consultation Papers.
Applicant	A person who submits an Application.
Application	A valid application for a specified number of CPS made pursuant to either: – the applicable Application Form; or – in respect of the Institutional Offer, a duly completed confirmation letter.
Application Form or **Application Forms**	Each of the application forms attached to, or accompanying, this Prospectus upon which an Application may be made, being: – the personalised Application Form provided to Eligible RPS Holders for Applications under the Reinvestment Offer; – the Application Form in the back of this Prospectus to be used by Broker Firm Applicants and General Applicants; – the electronic Application Form provided for online Applications under the General Offer; and – the personalised Application Form supplied by IAG upon request to IAG shareholders and RES holders.
Application Payment	The monies payable on each Application, calculated as the number of CPS applied for multiplied by the Issue Price.
APRA	Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of IAG or the Group.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691), or the market operated by it, as the context requires.
ASX Listing Rules	The listing rules of ASX, as amended, varied or waived (whether in respect of IAG or generally) from time to time.
Australian Basel III Rules	The final form of prudential rules applied to entities regulated by APRA resulting from the Basel III Consultation Papers.
Bank Bill Rate	Has the meaning given in clause 2.1 of the CPS Terms.
Basel III Consultation Papers	Has the meaning given in clause 17.2 of the CPS Terms.
BBSW	Has the meaning described in Section 2.3.3.
Board or **Board of Directors**	The board of directors of IAG.
Bookbuild	The process described in Section 7.3.1 to determine the Margin. See clause 17.2 of the CPS Terms.
Broker Firm Applicant	An Australian resident retail or high net worth client of a Syndicate Broker invited to participate through the Broker Firm Offer.
Broker Firm Offer	The offer of CPS under this Prospectus to retail and high net worth clients, of Syndicate Brokers, resident in Australia who have received a firm allocation from their Syndicate Broker.
Business Day	A day on which: – ASX is open for trading in securities; and – banks are open for general banking business in Melbourne and Sydney, Australia.
CHESS	Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

TERM	MEANING
Closing Date	The last date by which Applications must be lodged for the Offer, being: – 5:00pm on 19 April 2012 for the Reinvestment Offer, General Offer and Broker Firm Offer (for applications in respect of Reinvested RPS) (unless varied); and – 10:00am on 30 April 2012 for the Broker Firm Offer (excluding applications in respect of Reinvested RPS) (unless varied).
Common Equity Tier 1 Capital	Common equity tier 1 capital of the Group as defined by APRA from time to time.
Constitution	The constitution of IAG, as amended from time to time.
Conversion	In relation to a CPS, subject to amendment in accordance with clause 14.1, the taking effect of the rights specified in clause 7 in relation to that CPS. Convert and Converted have corresponding meanings. For the full definition of the Conversion mechanics – see clauses 1.1, 7 and 17.2 of the CPS Terms.
Conversion Number	Has the meaning given in clause 7.1(b) of the CPS Terms.
Corporations Act	*Corporations Act 2001* (Cth).
CPS	Convertible preference shares, being fully paid preference shares issued by IAG which will Mandatorily Convert into Ordinary Shares (subject to certain conditions being satisfied), and which are to be issued under this Prospectus.
CPS Holder	A person whose name is registered as the holder of a CPS.
CPS Terms	Terms and conditions of CPS as set out in Appendix A.
Delisting Event	Broadly occurs when IAG is delisted, its Ordinary Shares have been suspended from trading for a certain period, or it is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting CPS – see clause 17.2 of the CPS Terms.
Directors	Some or all of the directors of IAG acting individually or as a board (as the context requires).
Distributable Profits	Has the meaning given in clause 17.2 of the CPS Terms.
Distribution Restriction	The restriction discussed in Section 2.3.9. For the full definition – see clause 2.8 of the CPS Terms.
Dividend	See clause 2.1 of the CPS Terms.
Dividend Payment Date	In respect of a CPS, 1 November 2012, and after that each 1 May and 1 November until the date that the CPS is Redeemed or Converted. For the full definition – see clause 2.5 of the CPS Terms.
Dividend Payment Tests	In relation to Dividends, each Dividend is subject to: – the Directors, at their absolute discretion, resolving to pay the Dividend on the relevant Dividend Payment Date; and – no APRA Condition existing in respect of the relevant Dividend Payment Date.
Dividend Period	A period from (and including) either the Issue Date until (but not including) the first Dividend Payment Date, or from a subsequent Dividend Payment Date until (but not including) the following Dividend Payment Date. For the full definition – see clause 17.2 of the CPS Terms.
Dividend Rate	The dividend rate on CPS calculated using the formula described in Section 2.3.2. For the full definition – see clause 2.1 of the CPS Terms.
Eligible RPS Holder	An RPS holder who is: – a registered holder of RPS on 16 March 2012; – shown on the RPS register as having an address in Australia; and – not in the United States or acting as a nominee for a person in the United States.
Exchange	Either of the following: – Conversion in accordance with and subject to clause 7 of the CPS Terms; or – Redemption in accordance with and subject to clause 8 of the CPS Terms. Exchanged has a corresponding meaning.

APPENDIX B
GLOSSARY CONTINUED

TERM	MEANING
Exchange Date	The date on which Exchange is to occur. For the full definition – see clause 5.2(b) of the CPS Terms.
Exchange Method	The means by which Exchange is effected. For the full definition – see clause 5.3 of the CPS Terms.
Exchange Notice	A notice issued by IAG to a CPS Holder under clause 5.1 of the CPS Terms.
Expiry Date	The date which is 13 months after 19 March 2012.
Exposure Period	The seven day period after the date the Original Prospectus was lodged with ASIC during which the Corporations Act prohibits the processing of Applications.
First Mandatory Conversion Condition	Has the meaning given in clause 3.3 of the CPS Terms.
Fundamental Tier 1 Capital	Fundamental tier 1 capital as defined by APRA from time to time.
General Applicant	A member of the general public who is an Australian resident and who applies under the General Offer.
General Offer	The invitation to members of the general public who are resident in Australia to apply for CPS under this Prospectus.
Goldman Sachs	Goldman Sachs Australia Pty Limited (ABN 21 006 797 897, AFSL 243346).
Gross written premium or **GWP**	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
Group	The statutory consolidated group comprising IAG and its subsidiaries. The Group and its activities are described in Section 3.
GST	Has the meaning given by section 195-1 of the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).
HIN	Holder Identification Number for Ordinary Shares or CPS (when issued) held on the CHESS subregister.
Holding Statement	A statement issued to CPS Holders by the Registry which sets out details of CPS allotted to them under the Offer.
IAG	Insurance Australia Group Limited (ABN 60 090 739 923).
Innovative Residual Tier 1 Capital	Innovative residual tier 1 capital as defined by APRA from time to time.
Institutional Investor	An investor to whom offers or invitations in respect of CPS can be made without the need for a lodged prospectus (or other formality, other than a formality which IAG is willing to comply with), including in Australia persons to whom offers or invitations can be made without the need for a lodged prospectus under section 708 of the Corporations Act and who has been invited by the Joint Lead Managers to bid for CPS in the Bookbuild, provided that such investor may not be in the United States.
Institutional Offer	The invitation by the Joint Lead Managers to Institutional Investors to bid for CPS in the Bookbuild.
Issue Date	The date CPS are issued to CPS Holders under this Prospectus, expected to be 1 May 2012.
Issue Price	The issue price for CPS under this Prospectus, being $100 per CPS.
Joint Lead Managers	Goldman Sachs, Macquarie, National Australia Bank, UBS and Westpac.
Latest Equity Issue Price	Has the meaning given in clause 17.2 of the CPS Terms.
Level 2	A level 2 insurance group as defined by APRA from time to time.
Liquidation Sum	In respect of each CPS held, the sum of: – the amount of any Dividend determined to be paid but unpaid; and – the Issue Price. For the full definition – see clause 9.2(c) of the CPS Terms (but note it may be affected as described in clause 7.13 of the CPS Terms).
Macquarie	Macquarie Capital (Australia) Limited (ABN 79 123 199 548, AFSL 314416).
Mandatory Conversion	The mandatory conversion under clause 3 of the CPS Terms. Mandatorily Convert has a corresponding meaning.
Mandatory Conversion Date	The earlier of 1 May 2019 and the next Dividend Payment Date after that date on which the Mandatory Conversion Conditions are satisfied. For the full definition – see clause 3.2 of the CPS Terms.

TERM	MEANING
Margin	4.00% per annum as determined under the Bookbuild, as may be increased pursuant to the CPS Terms.
Maximum Conversion Number	Has the meaning given in clause 7.1(b) of the CPS Terms.
Minimum Capital Requirement or **MCR**	The capital required by IAG's primary prudential regulator, APRA, to be maintained in order to enable the Group's insurance obligations to be met under a wide range of circumstances, or any successor requirement as designated by APRA. MCR is calculated on a risk-based assessment for measurement of assets and liabilities under the prudential principles for insurance companies.
National Australia Bank	National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686).
Non-Innovative Residual Tier 1 Capital	Non-innovative residual tier 1 capital as defined by APRA from time to time.
Non-Viability Trigger Event	See clause 4.1 of the CPS Terms.
Offer	The offer by IAG of CPS under this Prospectus to raise $350 million with the ability to raise more or less.
Offer Management Agreement	The offer management agreement entered into between IAG and the Joint Lead Managers, as described in Section 10.5.
Offer Period	The period from the Opening Date to the Closing Date.
Opening Date	The day the Offer opens, being 27 March 2012, unless varied.
Optional Exchange Date	1 May 2017 and any date after that as specified in an Exchange Notice. See clause 17.2 of the CPS Terms.
Ordinary Share	A fully paid ordinary share in the capital of IAG.
Original Prospectus	The prospectus dated 19 March 2012 and lodged with ASIC on that date, which this Prospectus replaces.
Privacy Act	*Privacy Act 1988* (Cth).
Pro Rata Dividend	The dividend accrued over the period from (and including) 15 December 2011 to (but excluding) the Reinvested RPS Buy-back Date, in respect of each RPS on issue, expected to be paid on the Reinvested RPS Buy-back Date, being 1 May 2012.
Prospectus	This document (including the electronic form of this Prospectus), and any supplementary or replacement prospectus in relation to this document, including the CPS Terms.
Redeem	In relation to a CPS, to redeem, buy back (other than by an on-market buy-back within the meaning of the Corporations Act) or reduce capital, or any combination of such activities, in connection with that CPS in accordance with clause 8 of the CPS Terms. Redeemed and Redemption have corresponding meanings.
Register	The official register of RPS, Ordinary Shares and/or CPS (if issued) as the context requires, each being maintained by the Registry on IAG's behalf and including any subregisters established and maintained in CHESS.
Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registry that IAG appoints to maintain the Register.
Regulatory Event	Broadly, occurs when IAG receives legal advice that, as a result of a change of law or regulation on or after the Issue Date, additional requirements would be imposed on IAG in relation to CPS which the Directors determine to be unacceptable, or under which the Directors determine that IAG will not be entitled to treat all CPS as Residual Tier 1 Capital. For the full definition – see clause 17.2 of the CPS Terms.
Reinvested RPS	RPS held by an Eligible RPS Holder that are reinvested in CPS, under the terms of the Reinvestment Offer.
Reinvested RPS Buy-back Date	1 May 2012.
Reinvestment Offer	The invitation to Eligible RPS Holders to reinvest their RPS in CPS under this Prospectus, by the method described in Section 6.5.1.
RES	Reset exchangeable securities issued by IAG Finance (New Zealand) Limited in accordance with the terms of issue under a trust deed as amended on 15 December 2009.
Reset Date	The next reset date for RPS, being 15 June 2012.
Residual Tier 1 Capital	Residual tier 1 capital of the Group as defined by APRA from time to time and includes a reference to "Additional Tier 1 Capital" as described in the Basel III Consultation Paper.
RES Preference Shares	Fully paid preference shares in the capital of IAG according to the terms of issue set out in appendix A of the prospectus dated 22 November 2004, as amended by appendix C of the explanatory statement dated 23 October 2009.
RPS	Reset preference shares issued by IAG according to a prospectus dated 6 May 2002 (as amended in 2007).

APPENDIX B
GLOSSARY CONTINUED

TERM	MEANING
RPS Holder Applicant	An Eligible RPS Holder who applies under the Reinvestment Offer.
Second Mandatory Conversion Condition	Has the meaning given in clause 3.3 of the CPS Terms.
Shareholder	A holder of Ordinary Shares from time to time.
Solvency II	The European community's prudential standards for insurance companies.
SRN	Securityholder Reference Number for RPS, Ordinary Shares or CPS (when issued) held on the issuer sponsored subregister.
Structuring Advisors	Macquarie and UBS.
Syndicate Broker	Any of the Joint Lead Managers and any senior co-managers, co-managers and brokers appointed by the Joint Lead Managers with the approval of IAG.
Tax Act	– The *Income Tax Assessment Act 1936* (Cth), the *Income Tax Assessment Act 1997* (Cth) or the *Taxation Administration Act 1953* (Cth), as the context requires; – any other law setting out the rate of income tax payable; and – any regulation made under such laws.
Tax Event	Broadly, occurs when the directors receive advice that, as a result of a change in Australian tax law, or an administrative pronouncement or ruling, on or after the Issue Date, there is a more than insubstantial risk that IAG would be exposed to more than an insignificant increase in its costs in relation to CPS being on issue, any Dividend would not be a frankable dividend or distribution for tax purposes or franking credits may not be available to Australian tax resident CPS Holders generally. For the full definition – see clause 17.2 of the CPS Terms.
TFN	Tax File Number.
Third Mandatory Conversion Condition	Has the meaning given in clause 3.3 of the CPS Terms.
Tier 1 Capital	Tier 1 capital as defined by APRA from time to time.
Tier 2 Capital	Tier 2 capital as defined by APRA from time to time.
UBS	UBS AG, Australia Branch (ABN 47 088 129 613, AFSL 231087).
Upper Tier 2 Capital	Has the meaning given in clause 17.2 of the CPS Terms.
US Securities Act	US Securities Act of 1933.
Westpac	Westpac Banking Corporation (ABN 33 007 457 141, AFSL 233714).
Written Down	Means that the rights of a CPS are varied so that a holder of a CPS would have rights in respect of the CPS rights broadly equivalent to the rights of a person holding the number of Ordinary Shares the CPS Holder would have held if the Conversion had occurred. For a full explanation see clause 7.13 of the CPS Terms.

Insurance Australia Group

General Offer and Broker Firm Offer Application Form

This Application Form is important and should be read in conjunction with the accompanying Prospectus (and any supplementary or replacement Prospectus). The Prospectus expires 13 months after the date of the Original Prospectus. If you are in doubt as to how to deal with it, please contact your stockbroker or professional adviser without delay. Broker Firm applicants must contact their Syndicate Broker for information on how to submit this Broker Firm Application Form and their payment. You should read the entire Prospectus carefully before completing this form. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the Prospectus.

A **I/we apply for**

Number of CPS at $100.00 per CPS or such lesser number of CPS which may be allocated to me/us

B **I/we lodge full Application Money**

A$. 0 0

C **Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)**

Title or Company Name | Given Name(s) | Surname

Joint Applicant 2 or Account Designation

Joint Applicant 3 or Account Designation

D **Enter your postal address - Include State and Postcode**

Unit | Street Number | Street Name or PO Box /Other Information

City / Suburb / Town | State | Postcode

E **Enter your contact details**

Contact Name | Telephone Number - Business Hours / After Hours

( )

F **CHESS Participant**

Holder Identification Number (HIN)

X

Please note that if you supply a CHESS HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN, and any securities issued as a result of the offer will be held on the Issuer Sponsored subregister.

Payment details – Please note that funds are unable to be directly debited from your bank account

G

Drawer	Cheque Number	BSB Number	Account Number	Amount of cheque
				A$

Make your cheque or bank draft payable to IAG CPS Offer

By submitting this Application Form, I/we declare that this application is completed and lodged according to the Prospectus and the declarations/statements on the reverse of this Application Form and I/we declare that all details and statements made by me/us (including the declaration on the reverse of this Application Form) are complete and accurate. I/we agree to be registered as a member of the Company and to be bound by the Constitution of the Company, the CPS Terms and the terms and conditions of the Offer. I/we make the acknowledgements, representations and warranties set out in section 7.3.2 of the Prospectus, and agree to the statements set out in Section 7.3.7 of the Prospectus.

See back of form for completion guidelines

How to complete this form

A **Shares Applied for**
Enter the number of CPS you wish to apply for. The application must be for a minimum of 50 CPS (A$5,000). There are no guaranteed allocations of CPS under the General Offer or Broker Firm Offer, or otherwise.

B **Application Monies**
Enter the amount of application payment. To calculate the amount, multiply the number of CPS applied for by the Issue Price (which is A$100.00 per CPS).

C **Applicant Name(s)**
Enter the full name you wish to appear on the statement of share holding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHESS) participants should complete their name identically to that presently registered in the CHESS system.

D **Postal Address**
Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

E **Contact Details**
Enter your contact details. These are not compulsory but will assist us if we need to contact you.

F **CHESS**
Insurance Australia Group Limited (the Company) will apply to the ASX to participate in respect of CPS in CHESS, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Securities Exchange Limited. In CHESS, the company will operate an electronic CHESS Subregister of security holdings and an electronic Issuer Sponsored Subregister of security holdings. Together the two Subregisters will make up the Company's principal register of CPS securities.
If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold CPS allotted to you under this Application on the CHESS Subregister, enter your CHESS HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

G **Payment**
Make your cheque or bank draft payable to 'IAG CPS Offer' in Australian currency and cross it Not Negotiable. Your cheque or bank draft must be drawn on an Australian branch of an Australian financial institution.
Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B. **Please note that funds are unable to be directly debited from your bank account.**
Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected. Paperclip (do not staple) your cheque(s) to the Application Form. Cash will not be accepted. Receipt for payment will not be forwarded.

Lodgement Instructions

Broker Firm Offer Applicant

If you are a Broker Firm Applicant or you have received a firm allocation of CPS from your Syndicate Broker, your Application must be received by your Syndicate Broker in time for them to arrange settlement on your behalf by the Closing Date of the Broker Firm Offer (as set out in Section 7.2 of the Prospectus). You must contact your Syndicate Broker for their instructions on how to submit your Broker Firm Offer Application.

General Offer Applicant

Application Forms must be received by Computershare Investor Services Pty Limited by no later than 5.00pm (Sydney time) on 19 April 2012. You should allow sufficient time for this to occur. Return the Application Form with cheque(s) attached to:

Computershare Investor Services Pty Limited
GPO Box 2115
MELBOURNE VIC 3001

Neither CIS nor the Company accepts any responsibility if you lodge the Application Form at any other address or by any other means.

Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited ("CIS"), as registrar for IAG, for the purpose of maintaining registers of securityholders, facilitating distribution payments, completing the transactions contemplated in this Application Form and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by IAG in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or e-mail privacy@computershare.com.au.

If you have any enquiries concerning your application, please contact the Offer Information Line on 1300 666 635 (within Australia) or +61 3 6415 4194 (outside Australia).

Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold. CPS applications must be made in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and the surname is required for each natural person. The name of the beneficial owner or any other registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable title(s) below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual – Use given name(s) in full, not initials	Mr John Alfred Smith	J.A Smith
Joint – Use given name(s) in full, not initials	Mr John Alfred Smith & Mrs Janet Marie Smith	John Alfred & Janet Marie Smith
Company – Use company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
Trusts – Use trustee(s) personal name(s) – Do not use the name of the trust	Ms Penny Smith <Penny Smith Family A/C>	Penny Smith Family Trust
Deceased Estates – Use executor(s) personal name(s) – Do not use the name of the deceased	Mr Michael Smith <Est John Smith A/C>	Estate of Late John Smith
Minor (a person under the age of 18) – Use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter Smith A/C>	Peter Smith
Partnerships – Use partners personal name(s) – Do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith & Son A/C>	John Smith & Son
Clubs/Unincorporated Bodies/Business Names – Use office bearer(s) personal name(s) – Do not use the name of the club etc	Mrs Janet Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds – Use the name of trustee of the fund – Do not use the name of the fund	John Smith Pty Ltd <Super Fund A/C>	John Smith Pty Ltd Superannuation Fund

Insurance Australia Group

General Offer and Broker Firm Offer Application Form

This Application Form is important and should be read in conjunction with the accompanying Prospectus (and any supplementary or replacement Prospectus). The Prospectus expires 13 months after the date of the Original Prospectus. If you are in doubt as to how to deal with it, please contact your stockbroker or professional adviser without delay. Broker Firm applicants must contact their Syndicate Broker for information on how to submit this Broker Firm Application Form and their payment. You should read the entire Prospectus carefully before completing this form. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the Prospectus.

A **I/we apply for**

Number of CPS at $100.00 per CPS or such lesser number of CPS which may be allocated to me/us

B **I/we lodge full Application Money**

A$. 0 0

C **Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)**

Title or Company Name | Given Name(s) | Surname

Joint Applicant 2 or Account Designation

Joint Applicant 3 or Account Designation

D **Enter your postal address - Include State and Postcode**

Unit | Street Number | Street Name or PO Box /Other Information

City / Suburb / Town | State | Postcode

E **Enter your contact details**

Contact Name | Telephone Number - Business Hours / After Hours

( )

F **CHESS Participant**

Holder Identification Number (HIN)

X

Please note that if you supply a CHESS HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN, and any securities issued as a result of the offer will be held on the Issuer Sponsored subregister.

Payment details – Please note that funds are unable to be directly debited from your bank account

G

Drawer	Cheque Number	BSB Number	Account Number	Amount of cheque
				A$

Make your cheque or bank draft payable to IAG CPS Offer

By submitting this Application Form, I/we declare that this application is completed and lodged according to the Prospectus and the declarations/statements on the reverse of this Application Form and I/we declare that all details and statements made by me/us (including the declaration on the reverse of this Application Form) are complete and accurate. I/we agree to be registered as a member of the Company and to be bound by the Constitution of the Company, the CPS Terms and the terms and conditions of the Offer. I/we make the acknowledgements, representations and warranties set out in section 7.3.2 of the Prospectus, and agree to the statements set out in Section 7.3.7 of the Prospectus.

See back of form for completion guidelines

How to complete this form

A **Shares Applied for**
Enter the number of CPS you wish to apply for. The application must be for a minimum of 50 CPS (A$5,000). There are no guaranteed allocations of CPS under the General Offer or Broker Firm Offer, or otherwise.

B **Application Monies**
Enter the amount of application payment. To calculate the amount, multiply the number of CPS applied for by the Issue Price (which is A$100.00 per CPS).

C **Applicant Name(s)**
Enter the full name you wish to appear on the statement of share holding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHESS) participants should complete their name identically to that presently registered in the CHESS system.

D **Postal Address**
Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

E **Contact Details**
Enter your contact details. These are not compulsory but will assist us if we need to contact you.

F **CHESS**
Insurance Australia Group Limited (the Company) will apply to the ASX to participate in respect of CPS in CHESS, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Securities Exchange Limited. In CHESS, the company will operate an electronic CHESS Subregister of security holdings and an electronic Issuer Sponsored Subregister of security holdings. Together the two Subregisters will make up the Company's principal register of CPS securities.
If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold CPS allotted to you under this Application on the CHESS Subregister, enter your CHESS HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

G **Payment**
Make your cheque or bank draft payable to 'IAG CPS Offer' in Australian currency and cross it Not Negotiable. Your cheque or bank draft must be drawn on an Australian branch of an Australian financial institution.
Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B. **Please note that funds are unable to be directly debited from your bank account.**
Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected. Paperclip (do not staple) your cheque(s) to the Application Form. Cash will not be accepted. Receipt for payment will not be forwarded.

Lodgement Instructions

Broker Firm Offer Applicant

If you are a Broker Firm Applicant or you have received a firm allocation of CPS from your Syndicate Broker, your Application must be received by your Syndicate Broker in time for them to arrange settlement on your behalf by the Closing Date of the Broker Firm Offer (as set out in Section 7.2 of the Prospectus). You must contact your Syndicate Broker for their instructions on how to submit your Broker Firm Offer Application.

General Offer Applicant

Application Forms must be received by Computershare Investor Services Pty Limited by no later than 5.00pm (Sydney time) on 19 April 2012. You should allow sufficient time for this to occur. Return the Application Form with cheque(s) attached to:

Computershare Investor Services Pty Limited
GPO Box 2115
MELBOURNE VIC 3001

Neither CIS nor the Company accepts any responsibility if you lodge the Application Form at any other address or by any other means.

Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited ("CIS"), as registrar for IAG, for the purpose of maintaining registers of securityholders, facilitating distribution payments, completing the transactions contemplated in this Application Form and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by IAG in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or e-mail privacy@computershare.com.au.

If you have any enquiries concerning your application, please contact the Offer Information Line on 1300 666 635 (within Australia) or +61 3 6415 4194 (outside Australia).

Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold. CPS applications must be made in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and the surname is required for each natural person. The name of the beneficial owner or any other registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable title(s) below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual – Use given name(s) in full, not initials	Mr John Alfred Smith	J.A Smith
Joint – Use given name(s) in full, not initials	Mr John Alfred Smith & Mrs Janet Marie Smith	John Alfred & Janet Marie Smith
Company – Use company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
Trusts – Use trustee(s) personal name(s) – Do not use the name of the trust	Ms Penny Smith <Penny Smith Family A/C>	Penny Smith Family Trust
Deceased Estates – Use executor(s) personal name(s) – Do not use the name of the deceased	Mr Michael Smith <Est John Smith A/C>	Estate of Late John Smith
Minor (a person under the age of 18) – Use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter Smith A/C>	Peter Smith
Partnerships – Use partners personal name(s) – Do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith & Son A/C>	John Smith & Son
Clubs/Unincorporated Bodies/Business Names – Use office bearer(s) personal name(s) – Do not use the name of the club etc	Mrs Janet Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds – Use the name of trustee of the fund – Do not use the name of the fund	John Smith Pty Ltd <Super Fund A/C>	John Smith Pty Ltd Superannuation Fund

CORPORATE DIRECTORY

ISSUER
Insurance Australia Group Limited
Level 26
388 George Street
Sydney NSW 2000

AUSTRALIAN LEGAL ADVISER
King & Wood Mallesons
Level 50, Bourke Place
600 Bourke Street
Melbourne VIC 3000

AUSTRALIAN TAX ADVISER
King & Wood Mallesons
Level 50, Bourke Place
600 Bourke Street
Melbourne VIC 3000

AUDITOR
KPMG
10 Shelley Street
Sydney NSW 2000

REGISTRY
Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000

STRUCTURING ADVISORS
Macquarie Capital (Australia) Limited
Level 9
1 Martin Place
Sydney NSW 2000

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

JOINT LEAD MANAGERS
Goldman Sachs Australia Pty Limited
Level 42, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Macquarie Capital (Australia) Limited
Level 9
1 Martin Place
Sydney NSW 2000

National Australia Bank Limited
Level 25
255 George Street
Sydney NSW 2000

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Westpac Banking Corporation
Level 2, Westpac Place
275 Kent Street
Sydney NSW 2000

HOW TO CONTACT US
IAG CPS Offer Information Line on 1300 666 635 or
+61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm)

WEBSITE:
www.iag.com.au/cpsoffer

abtprecinct.com.au