Insurance Australia
Group Limited
ABN 60 090 739 923
388 George Street
Sydney NSW 2000
Telephone 02 9292 9222
Facsimile: 02 9292 8072
iag.com.au

20 May 2003

Ms Pam Ross
Manager, Company Announcements Office
Australian Stock Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Ms Ross

INSURANCE AUSTRALIA GROUP LIMITED

PROPOSED ISSUE OF RESET PREFERENCE SHARES AND INTENDED TRADING HALT ON EXISTING RESET PREFERENCE SHARES (ASX: IAGPA)

Prospectus for RPS2

This evening Insurance Australia Group Limited ('IAG') lodged a prospectus with the Australian Securities and Investments Commission pursuant to which it is proposed to raise up to $200 million in a new offer of reset preference shares to be known as RPS2.

A copy of the prospectus is enclosed. Electronic copies are available from IAG's website at www.iag.com.au/rps2.

The proposed issue is part of IAG's ongoing capital management program and the funds raised would be used to repay a portion of existing senior debt obligations. Refinancing some senior debt with hybrid equity was part of the funding program announced in October 2002 for the acquisition of CGU and NZI.

A bookbuild is to be conducted for the RPS2 on 21 and 22 May 2003 to determine the margin (which is used in calculating the dividend rate) for the RPS2. The margin and dividend rate are scheduled to be announced on 23 May 2003.

Included in section 4.2 of the prospectus is an update to the equity market sensitivities of IAG, including the effect of increases in key equity market indices during April 2003.

A copy of the media release announcing the proposed issue is also attached.

Intended trading halt and ex-dividend date for RPS1 (IAGPA)

As the proposed RPS2 shares are very similar in nature to IAG's existing reset preference shares ('RPS1'), a trading halt is intended to be sought from ASX in respect of the RPS1 (ASX: IAGPA) for 21 and 22 May 2003, being the expected duration of the RPS2 bookbuild.

IAG draws the attention of investors to the fact that the RPS1 are scheduled to trade ex-dividend on 22 May 2003. If the trading halt is obtained from ASX, then, when trading recommences the RPS1 will be trading net of the fully franked dividend of $2.8921 per share (equivalent to $4.1316 per share if the holder is eligible for refunds of excess franking credits).

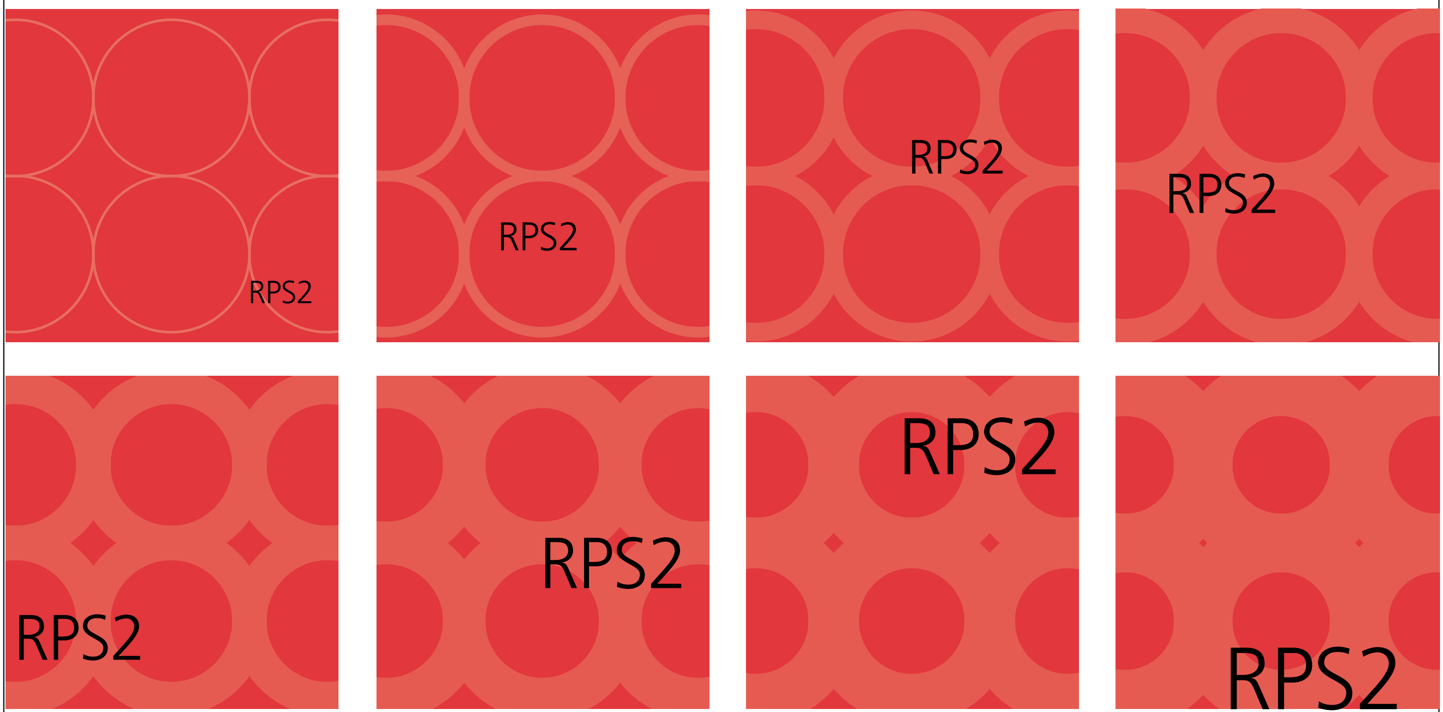
Yours sincerely

Anne O'Driscoll
Group Company Secretary &
Head of Investor Relations

Prospectus

For the issue of reset preference shares (RPS2)
at $100 each to raise up to $200 million

APPLICATIONS MUST BE FOR A MINIMUM OF 100 RPS2 ($10,000)



reset preference shares

INSURANCE AUSTRALIA GROUP LIMITED ABN 60 090 739 923

Joint Lead Managers	Deutsche Bank AG UBS Warburg Australia Limited
Co Managers	Commonwealth Securities Limited UBS Warburg Private Clients Ltd

Contents

Disclaimer

No person is authorised to give any information or to make any representation in connection with the Offer of the RPS2 described in this Prospectus that is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by IAG in connection with the Offer. Except as required by law, and only to the extent so required, neither IAG nor any other person warrants the future performance of IAG or any return on any investment made pursuant to this Prospectus.

Important information

This Prospectus is dated 20 May 2003 and a copy of this Prospectus was lodged with ASIC on that date. No RPS2 will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. ASIC and ASX take no responsibility for the content of this Prospectus.

This Prospectus will be made generally available from the date of this Prospectus until the Closing Date electronically on the Insurance Australia Group Limited (IAG) website at **www.iag.com.au/rps2** or by calling the **IAG RPS2 Information Line on 1300 666 635** during the Offer Period for a printed copy to be provided free of charge. The Application Form will be available with printed copies of this Prospectus and electronically during the Offer Period.

Applications for RPS2 pursuant to this Prospectus may only be made by Australian residents on Application Forms attached to, or accompanying, this Prospectus (including an electronic copy of this Prospectus) during the Offer Period and will not be accepted prior to the opening of the Offer Period and in any case, until after the expiry of the exposure period. The Offer to which this Prospectus (and electronic Prospectus) relates, is available to persons receiving this Prospectus (and electronic Prospectus) in Australia. Application Forms are only available with a Prospectus. The exposure period generally runs for seven days after lodgement of the Prospectus with ASIC, however, ASIC may extend it by up to a further seven days. See section 2.2 for details on how to invest.

Applicants should read this Prospectus in its entirety before deciding whether to participate in the Offer. If, after reading this Prospectus, you have any questions about the Offer, you should contact your stockbroker, accountant or other professional adviser.

No action has been taken to register the RPS2 or otherwise permit a public offering of the RPS2 in any jurisdiction outside of Australia. In particular, the RPS2 have not been registered under the Securities Act, and may not be offered or sold in the United States or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the Securities Act).

The pro forma financial information provided in this Prospectus is for information purposes only and is not a forecast of operating results to be expected in future periods.

Some words used in this Prospectus have defined meanings, which are set out in the Glossary in Appendix B or otherwise in clause 9 of the Terms of Issue in Appendix A. A reference to time in this Prospectus is to Sydney time, unless otherwise stated. A reference to $ is to Australian currency, unless otherwise stated.

Summary
of key dates

Event	Date*
Announcement of Offer	20 May 2003
Bookbuild	21 & 22 May 2003
Margin and Market Rate announced	23 May 2003
Opening Date	28 May 2003
Closing Date	19 June 2003
Allotment Date	20 June 2003
RPS2 commence trading on ASX on a deferred settlement basis	23 June 2003
Holding statements dispatched	26 June 2003
RPS2 commence trading on ASX on a normal settlement basis	27 June 2003
First Dividend Payment Date	15 December 2003
First Reset Date	15 June 2008

* These dates are indicative only and are subject to change. IAG has the right, subject to agreement with the Joint Lead Managers, to extend the Closing Date for the Offer or to close the Offer early without notice. Accordingly, investors are encouraged to submit their Application Forms as soon as possible after the Offer opens. If the Closing Date for the Offer is extended, the subsequent dates may also be extended. Application will be made to ASX for admission of the RPS2 to quotation on ASX, within seven days after the date of this Prospectus. The dates in this table are indicative only and depend on ASX approving this application.

20 May 2003

Dear Investor

On behalf of the Directors, I am pleased to offer you the opportunity to invest in Insurance Australia Group Limited (IAG) through an investment in the second issue of reset preference shares (RPS2).

The issue of the RPS2 forms part of IAG's ongoing capital management program. The proceeds from this Offer are intended to be used to refinance a portion of the Group's existing senior debt obligations as disclosed in IAG's investor report on 27 February 2003 with its results for the half year ended 31 December 2002. The issue of the RPS2 is on substantially the same terms as the reset preference shares (ASX code: IAGPA) issued in June 2002 (RPS1).

IAG intends to issue up to 2 million RPS2 at a Face Value of $100 each, to raise up to $200 million. The RPS2 are intended to be quoted on ASX.

The RPS2 offer investors a preferred non-cumulative Dividend fixed until 15 June 2008 at a Dividend Rate of #.##% per annum. The Dividend is expected to be fully franked. At current franking levels, the grossed up fully franked Dividend Rate would equate to #.##% per annum, for companies or persons entitled to a refund of excess franking credits.

The RPS2 have no maturity date. However, investors have the right to Exchange the RPS2 at the Face Value on each Reset Date, the first of which will occur on 15 June 2008. When the RPS2 are quoted on ASX, investors who wish to realise their investment prior to the Reset Date can sell on ASX at the prevailing market price. However, there can be no assurance as to what that price will be.

Full details of this investment opportunity are set out in this Prospectus and I urge you to read it carefully. To subscribe for the RPS2, you will need to fill out and return the Application Form attached to, or accompanying, this Prospectus during the Offer Period. Applications can only be made by Australian residents. If you have any questions regarding the Offer, please contact your stockbroker, accountant or other professional adviser, or call the **IAG RPS2 Information Line on 1300 666 635**.

The Offer is due to open on 28 May 2003 and close on 19 June 2003. However, it is possible that these dates may change so I encourage you to lodge your Application Form early.

On behalf of the Board, I invite you to consider this investment opportunity.

Yours faithfully

James Strong

James Strong
Chairman

Offer summary

section 1

1.1 ◦◦◦ The Offer structure

IAG intends to issue up to 2 million RPS2 at a Face Value of $100 each, to raise up to $200 million.

1.2 ◦◦◦ Summary terms

Set out below is a summary of the key Terms of Issue of the RPS2, which are substantially the same as the terms of issue of the RPS1. This information is a summary only, and should be read in conjunction with other information contained in this Prospectus in particular, the 'Investment Risks' in section 5 and the Terms of Issue in Appendix A.

Issuer	Insurance Australia Group Limited.
Security	Reset preference shares (RPS2).
Face Value	$100 per RPS2.
Dividend	A preferred non-cumulative Dividend fixed until the first Reset Date (15 June 2008) at #.##% per annum which is expected to be fully franked. At current franking levels, the grossed up fully franked Dividend Rate would equate to #.##% per annum, for companies or persons entitled to a refund of excess franking credits.
Calculation of Dividend Rate	The Dividend Rate is determined by reference to the Market Rate and the Margin which is then adjusted to reflect the franking credits that are expected to be attached to the Dividend. The Margin for the period to the first Reset Date was determined by the Bookbuild on 21 and 22 May 2003 and is #.##% per annum. The Market Rate for the period to the first Reset Date was calculated by reference to the 5 Year Swap Rate on the day the Margin was announced, which is #.##% per annum. The prevailing corporate tax rate is 0.30 and the Dividend is expected to be fully franked, so the amount of the adjustment for the franking credits is 0.70. See section 3.3 and clause 2.1 of the Terms of Issue. The amount of the Dividend can be reset on each Reset Date.
Payment of Dividend	Dividends are payable semi-annually on 15 December and 15 June. The first Dividend Payment Date is 15 December 2003. The payment of Dividends is subject to a number of conditions (see section 3.6 and clause 2.2 of the Terms of Issue). If Dividends are not paid on the RPS2, no dividends can be paid and no returns of capital can be made on Ordinary Shares unless IAG takes certain actions (see section 3.8 and clause 2.9 of the Terms of Issue). Non-payment of Dividends will generally not entitle the Holder to Exchange. IAG may deduct any withholding tax or other taxes from the payment of Dividends, which are required by law to be deducted from such payment.
Franking	IAG expects the Dividend to be fully franked. If a Dividend is unfranked or partially franked, the Dividend will be increased to compensate for the unfranked component.
Reset Dates	On each Reset Date, IAG may reset certain terms, including the next Reset Date, Margin, Market Rate, and frequency and timing of payment of Dividends (see section 3.9 and clause 4 of the Terms of Issue). The first Reset Date will be 15 June 2008.

Exchange by IAG	IAG may Exchange some or all of the RPS2 on a Reset Date, or earlier in respect of all of the RPS2 following the occurrence of a Tax Event, Regulatory Event or certain takeovers or schemes of arrangement. On Exchange, IAG may: • convert the RPS2 into Ordinary Shares; or • redeem, buy-back or cancel the RPS2 for their Face Value subject to prior approval by APRA. See section 3.11 and clause 3.3 of the Terms of Issue.
Exchange by the Holder	A Holder may Exchange some or all of the RPS2 on a Reset Date, or earlier in respect of all of the RPS2, following the occurrence of a Trigger Event (see section 3.13 and clause 3.2 of the Terms of Issue). On Exchange, IAG may: • convert the RPS2 into Ordinary Shares; • arrange for a third party to acquire the RPS2 from the Holder for their Face Value; or • redeem, buy-back or cancel the RPS2 for their Face Value subject to prior approval by APRA. See section 3.11 and clause 3.1 of the Terms of Issue.
Conversion ratio	The rate at which the RPS2 will convert into Ordinary Shares will be calculated by reference to the VWAP on the 20 Business Days immediately preceding the Exchange Date. All conversions into Ordinary Shares, other than a Holder requesting conversion on a Reset Date, will receive a discount of 2.5% of the Ordinary Share price used in calculating the number of Ordinary Shares to be issued on conversion. See section 3.14 and clause 3.6 of the Terms of Issue.
Ranking	Dividends will be paid in priority to any dividends on Ordinary Shares. In a winding up, the RPS2 will rank for return of capital behind all creditors of IAG, equally with RPS1 holders, and ahead of Ordinary Shares. RPS1 rank equally with RPS2 in all respects. IAG reserves the right in the future to issue additional RPS2 (or other preference shares ranking equally with or behind the RPS2) without the approval of Holders.
Participation	The RPS2 do not carry a right to participate in issues of securities or capital reconstructions.
Voting rights	The RPS2 do not carry a right to vote at general meetings, except in limited circumstances.
Listing	The RPS2 will be quoted on ASX, subject to successful application. Quotation is not guaranteed or automatic.

1.3 ◦◦◦ Risks

There are particular risks associated with investing in the RPS2, as well as risks attaching to the Group and associated with the insurance industry generally. A summary of investment risks is set out in section 5.

Investors should read the whole of this Prospectus carefully. If an investor is unclear in relation to any matter or uncertain if the RPS2 are a suitable investment, the investor should consult their stockbroker, accountant or other professional adviser.

section 2

Details of the Offer

2.1 Structure of the Offer

Offer and Allotment

IAG intends to issue up to 2 million RPS2 at a Face Value of $100 each, to raise up to 200 million and allot the RPS2 under this Offer on 20 June 2003 (Allotment Date). However, IAG has the right to change this date subject to agreement with the Joint Lead Managers.

The Offer is only made to Australian residents.

ASX listing

Application will be made to ASX within seven days after the date of this Prospectus for official quotation of the RPS2 issued under this Prospectus. If quotation is not granted on ASX, the RPS2 will not be issued and application money will be refunded without interest.

It is expected that the RPS2 will trade under the ASX code IAGPB.

ASX deferred settlement trading

It is expected that the trading of the RPS2 on ASX will commence on a deferred settlement basis on 23 June 2003 following announcement of allocations. Trading will continue on that basis until 27 June 2003 when it is expected that trading of the RPS2 will be on a normal settlement basis. This is because trading will take place before entries are made on IAG's register in respect of holdings of the RPS2 and before holding statements are sent out to Holders.

It is the responsibility of each applicant to confirm their holding prior to trading in the RPS2. Applicants who sell their RPS2 before they receive their holding statements will do so at their own risk. Applicants may call their broker or the **IAG RPS2 Information Line on 1300 666 635** to enquire about their holding.

Provision of holding statements

IAG will apply for the RPS2 to participate in CHESS and no share certificates will be issued. On 26 June 2003, IAG expects holding statements to be dispatched, which will set out the number of the RPS2 issued to each successful applicant.

2.2 ◦ ◦ ◦ How to invest

Who may apply?

The Offer is available to persons receiving this Prospectus (including the copy of this Prospectus available electronically as set out below under 'Prospectus available online') in Australia who are Australian residents. No action will be taken to register this Prospectus or otherwise permit a public offering of the RPS2 in any jurisdiction outside Australia. The Offer is not made in any jurisdiction where the laws of that jurisdiction would require this Prospectus to be registered or other action to be taken by IAG.

Minimum Application

The Face Value for each RPS2 is $100. Applications must be for a minimum of 100 RPS2 ($10,000).

IAG and the Joint Lead Managers reserve the right to reject any Applications, or to allocate any applicant a lesser number of the RPS2 than those applied for, including less than the minimum of 100 RPS2 ($10,000).

When to apply

The Offer is due to open at 9.00am (Sydney time) on 28 May 2003 (Opening Date) and is scheduled to close at 5.00pm (Sydney time) on 19 June 2003 (Closing Date). Applications for the RPS2 must be received no later than 5.00pm (Sydney time) on the Closing Date in accordance with the instructions below.

IAG may extend the Closing Date or close the Offer early without notice. Accordingly, applicants for the RPS2 are encouraged to submit the relevant Application Form as soon as possible after the Opening Date.

Broker firm allocations

Some applicants may be participating in the Offer through their stockbroker. If you receive a firm allocation of the RPS2 from a Participating Broker, your stockbroker will act as your agent in applying for RPS2 and you must:

- make your cheque(s) and/or money order(s) payable to the stockbroker that has given you the firm allocation; and
- deliver your completed Application Form and payment to the stockbroker that has given you the firm allocation, who will deliver it to IAG on your behalf prior to the Closing Date.

A Co Manager may make the Prospectus available on its website (see 'Enquiries' below) and may have an online application facility. You should follow the instructions of your stockbroker in making your Application.

Broker firm applicants should contact the Participating Broker from whom they received their firm allocation of the RPS2 for further information about submitting an Application and payment instructions. Such applicants will be able to obtain a copy of this Prospectus and the accompanying Application Form from the relevant Participating Broker or from their website (if available).

General Applications

To apply for the RPS2, you must complete the Application Form attached to, or accompanying, this Prospectus (including an electronic copy made available as detailed below in 'Prospectus available online') in accordance with the instructions set out on the Application Form. Your completed Application Form and payment should be returned to either of the addresses set out below.

Application Forms, duly completed, must be accompanied by cheque(s) or money order(s) in Australian dollars and must be drawn on an Australian branch of a financial institution. Cheque(s) should be crossed 'not negotiable' and made payable to '**IAG RPS2 Account**'.

Application Forms and accompanying cheque(s) or money order(s) will not be accepted at IAG's registered office, at any of the NRMA branches or other branded offices forming part of or outside of the Group.

Completed Application Forms and accompanying cheque(s) or money order(s)

must be mailed to:

Insurance Australia Group Limited
Reply Paid 35
Eastern Suburbs MC NSW 2004

or hand delivered to:

Insurance Australia Group Limited
c/- ASX Perpetual Registrars Limited
Level 8, 580 George Street
Sydney NSW 2000

Failure to comply with the above may mean that your Application is not received or not accepted.

If an Application is not accepted, or is accepted in part only, the relevant part of the application money will be refunded as soon as practicable after the Closing Date. No interest will be paid on any application money returned to the applicant. Any interest earned on application money prior to the return will be, and will remain, the property of IAG.

Prospectus available online

An electronic copy of this Prospectus will be available online from 20 May 2003 on the IAG website at **www.iag.com.au/rps2**. Alternatively, an electronic copy of this Prospectus will also be available from the Joint Lead Managers or a Participating Broker. There is no facility for online Applications except where it may be provided by a Co Manager. The Offer constituted by this Prospectus in electronic form is available only to persons receiving this Prospectus in electronic form in Australia.

During the Offer Period, electronic copies of this Prospectus will include an Application Form.

Persons in Australia who receive a copy of this Prospectus in electronic form may obtain a paper copy of this Prospectus (including an Application Form) free of charge during the Offer Period by contacting the **IAG RPS2 Information Line on 1300 666 635**.

Brokerage and stamp duty

No brokerage or stamp duty on the issue of the RPS2 is payable by applicants who complete the Application Form. Stamp duty will not be payable on subsequent transfers of the RPS2 while RPS2 are quoted on ASX. However, brokerage may be payable on subsequent transfers of the RPS2.

Tax File Numbers/Australian Business Numbers

If applicants do not quote their tax file number (TFN), TFN exemption code (if applicable) or Australian Business Number (ABN) (if the RPS2 are held as part of an enterprise carried on by a Holder) on their Application Form or subsequently provide such information to IAG, then IAG will be required to deduct tax at the highest marginal rate of tax including the Medicare levy (currently 48.5%) from the amount of any unfranked Dividend for those Holders.

Enquiries

If you require assistance to complete the Application Form, you should contact any of the following:

	RPS2 Information Lines	Website
Commonwealth Securities Limited	13 15 19	www.commsec.com.au
Deutsche Bank AG	1800 333 225	
UBS Warburg Private Clients Ltd	1800 242 020	
IAG RPS2 Information Line	1300 666 635	www.iag.com.au/rps2

If you are unclear in relation to any matter or are uncertain if the RPS2 are a suitable investment for you, you should contact your stockbroker, accountant or other professional adviser. If you have a firm allocation of the RPS2 and are in any doubt about what action you should take, you should immediately contact your Participating Broker.

By returning an Application Form, the applicant acknowledges that they have received and read this Prospectus.

2.3 ◦◦◦ Bookbuild

In the period after lodgement of this Prospectus and prior to the opening of the Offer, the Joint Lead Managers will co-ordinate a Bookbuild process in relation to the Offer whereby certain Australian institutional investors lodge bids for the RPS2, and on the basis of those bids, IAG determines the Margin.

The Bookbuild will be conducted in accordance with terms and conditions approved by IAG and the Joint Lead Managers. The RPS2 allocated pursuant to the Bookbuild will be issued pursuant to Applications under this Prospectus.

The Margin specified in the printed version of this Prospectus will be determined by IAG and the Joint Lead Managers on the basis of the outcome of the Bookbuild. The Market Rate for the period to the first Reset Date equals the 5 Year Swap Rate on the day following the Bookbuild.

ASIC has permitted the Dividend Rate, the Margin and the Market Rate to be inserted into this Prospectus after lodgement and prior to the printing of this Prospectus.

This section answers some questions which investors may have about the RPS2. These answers are intended as a guide only. Further details are provided elsewhere in this Prospectus, which you should read in its entirety. The Terms of Issue of the RPS2 are set out in full in Appendix A.

section 3

Answers to key questions

What are RPS2? When will Dividends be paid? How will Dividends be determined? What happens if IAG is unable to pay fully franked Dividends? What happens if the Australian corporate tax rate changes? Will Dividends always be paid? Will Dividends always be paid in cash? What happens if a Dividend is not paid in full? What are Reset Dates? What happens on a Reset Date? What is Exchange? Can an Exchange occur on a date other than a Reset Date? What is a Trigger Event? What happens on conversion? What happens in the event of redemption? Can the RPS2 be traded on ASX? Can a Holder require a repurchase, buy-back or redemption of their RPS2? In a winding up, what will Holders receive? What are the taxation implications of holding or selling the RPS2? Do the RPS2 have voting rights?

3.1 ◦◦◦ What are RPS2?

The RPS2 are preference shares to be issued on substantially the same terms as the RPS1 (ASX code: IAGPA), which:

- entitle the Holder to receive a preferred non-cumulative Dividend;
- rank in priority to Ordinary Shares for the payment of dividends and in the event of a winding up, will rank for return of capital behind all creditors of IAG, equally with holders of RPS1 and ahead of Ordinary Shareholders;
- have no maturity date but can be Exchanged in a number of circumstances; and
- have particular terms that may be reset at the discretion of IAG at any Reset Date.

3.2 ◦◦◦ When will Dividends be paid?

Dividends will be payable generally semi-annually in arrears, subject to certain conditions being satisfied (see section 3.6). Dividend Payment Dates are on 15 December and 15 June each year, with the first Dividend payable on 15 December 2003. Dividends are payable either by cheque or to a bank account of your choice. See section 3.8 for the implications for IAG if a Dividend is not paid.

The frequency and timing of the payment of Dividends can be reset by IAG on a Reset Date (see sections 3.9 and 3.10). Dividends are also paid on an Exchange Date (see section 3.11 and clause 2.6 of the Terms of Issue).

3.3 ◦◦◦ How will Dividends be determined?

Dividends will be determined by multiplying the Dividend Rate by the aggregate Face Value of a Holder's RPS2 adjusted for the relevant period.

The Dividend Rate to the first Reset Date is calculated by reference to the Margin determined by the Bookbuild and the Market Rate. The Market Rate is based on the 5 Year Swap Rate and will be announced after the Bookbuild. The Margin and Market Rate may be reset each Reset Date. Dividends for future periods may be greater or less than the Dividend to the first Reset Date (see clause 4.1 of the Terms of Issue).

The sum of the Market Rate and the Margin is adjusted to reflect the expectation that the Dividend paid on the RPS2 will be fully franked. The amount of the franking adjustment is determined based on the prevailing corporate tax rate and reflects the franking credits that are expected to be attached to the Dividend, assuming the Dividend paid on the RPS2 is fully franked. For the period to the first Reset Date, the amount of the adjustment is 0.70.

To meet APRA's requirements for Tier 1 Capital, there are certain restrictions on IAG's ability to reset the Margin and Market Rate on a Reset Date, which may be waived in whole or in part by APRA. See clause 4.2 of the Terms of Issue. See section 3.9 for other changes that can be made on a Reset Date.

3.4 ◦◦◦ What happens if IAG is unable to pay fully franked Dividends?

If IAG is unable to pay a fully franked Dividend, the Dividend will be increased to compensate for the unfranked portion in accordance with the formula set out in clause 2.1 of the Terms of Issue.

3.5 ◦◦◦ What happens if the Australian corporate tax rate changes?

If there is a change in the Australian corporate tax rate applicable to the franking account of IAG from which the Dividend is to be franked, the Dividend will be adjusted in accordance with the formula set out in clause 2.1 of the Terms of Issue.

3.6 ◦◦◦ Will Dividends always be paid?

The RPS2 are not debt instruments, and the Dividends payable are not the same as interest payments. Dividends may not always be paid as the payment of Dividends is subject to a number of conditions.

These conditions are:

- the Directors, at their discretion, determining a Dividend to be payable;
- IAG having profits, either current or retained, available for the payment of a Dividend;
- the payment of the Dividend having the result that IAG will still comply with APRA's capital adequacy guidelines regarding the Total Capital Adequacy Ratio and the Tier 1 Capital Ratio of the Group as they are applied at that time;
- unless APRA indicates that it has no objection, the amount of the Dividend not exceeding the profits after tax of the Group for the immediately preceding financial year less the aggregate amount of dividends paid by IAG in the then current financial year; and
- APRA not objecting to the payment of the Dividend.

There is a risk that one or more of these conditions may not be satisfied and that a Dividend is not paid (see section 3.8 for the consequences of this for IAG). Like other insurance and financial services groups, due to the Group's volatility of earnings there can be no guarantee that in certain years IAG will have sufficient profits to satisfy the requirement in the fourth bullet point above. In this circumstance (assuming all other conditions are satisfied), IAG may pay a Dividend provided APRA has no objection as was the case for all dividends paid by IAG since 30 June 2002.
See section 5.1 for the specific risks associated with 'Ability to pay Dividends' and section 5.2 for an outline of the major risks affecting the level of profitability of the Group.

The anticipated reclassification of RPS2 as debt instruments following the introduction of International Financial Reporting Standards (IFRS) in January 2005 is an accounting reclassification only and is not expected to impact the Terms of Issue or the legal or taxation status of the instrument. Consequently, the Holder will continue to be entitled to a Dividend after the introduction of IFRS despite the anticipated reclassification of the flows from the RPS2 as interest payments in the statement of financial performance (see section 5.1).

3.7 ◦◦◦ Will Dividends always be paid in cash?

As outlined in section 3.6, where IAG does not have sufficient profits and this is the only condition to the payment of a Dividend on the RPS2 that has not been met, the Directors may still pay a Dividend, provided that APRA does not object. In these circumstances, the Directors may determine that Holders will participate in a dividend reinvestment plan established by IAG in respect of that Dividend.
If this occurs, Holders would still be entitled to receive any franking credits in respect of that Dividend.

3.8 ◦◦◦ What happens if a Dividend is not paid in full?

Dividends on the RPS2 are non-cumulative. Accordingly, if a Dividend, or part of a Dividend, is not paid on a Dividend Payment Date, IAG is not required to pay the unpaid amount at any later time. The RPS2 are not debt instruments and Dividends are not the same as interest payments.

Non-payment of Dividends does not entitle a Holder to request Exchange, except in the limited circumstance where the Directors have determined that a Dividend is payable but the Dividend is not subsequently paid within 20 Business Days of the Dividend Payment Date (see clause 3.2 of the Terms of Issue).

If IAG does not pay a Dividend in full on a Dividend Payment Date (or within 20 Business Days of that date), then IAG may not pay a dividend on Ordinary Shares or return capital (other than RPS2 or share capital ranking equally with or in priority to RPS2), without the requisite approval of Holders, unless:

- two consecutive Dividends stated to be payable on the RPS2 thereafter have been paid in full (or an equivalent amount of Dividends has been paid, if the frequency of payment is other than semi-annual); or
- an Optional Dividend has been paid to Holders equal to the unpaid amount (if any) of the two immediately preceding Dividends prior to the date of payment of the Optional Dividend (or an equivalent amount of Dividends has been paid, if the frequency of payment is other than semi-annual); or
- all the RPS2 have been converted, redeemed, bought back or cancelled.

This restriction on payment of dividends or return of capital does not affect payments made with respect to RPS1 or other equal ranking securities.

If a dividend is not paid on the RPS1, IAG may not redeem, reduce, cancel or acquire for any consideration any share capital of IAG (other than RPS1).

3.9 ◦◦◦ What are Reset Dates?

Reset Dates are dates on which IAG may reset any or all of the following terms:

- the next Reset Date;
- the Margin;
- the Market Rate; and
- frequency and timing of payment of Dividends.

There are restrictions on IAG's discretion to change these terms. See clauses 4.1 and 4.2 of the Terms of Issue. IAG must notify Holders of any such changes at least 50 Business Days prior to the relevant Reset Date.

3.10 ◦◦◦ What happens on a Reset Date?

IAG may make changes to the terms as detailed in section 3.9. The new terms will apply from the day after the relevant Reset Date until and including the next Reset Date. See clause 4.1 of the Terms of Issue.

The RPS2 may be Exchanged on a Reset Date. Exchange may be initiated by IAG or by Holders in the circumstances detailed in section 3.11.

3.11 ◦◦◦ What is Exchange?

Exchange by Holder on a Reset Date

A Holder may deliver a Holder Exchange Notice to IAG at least 35 Business Days prior to a Reset Date in respect of some or all of their RPS2. IAG will notify the Holder at least 21 Business Days prior to a Reset Date which one of the following methods of Exchange it intends to apply on the Reset Date:

- convert the RPS2 into Ordinary Shares; or
- arrange for a third party to acquire the RPS2 from the Holder for their Face Value; or
- redeem, buy-back or cancel the RPS2 for their Face Value, subject to prior approval by APRA.

In this circumstance, Exchange only occurs on the Reset Date. See clause 3.1 of the Terms of Issue.

Exchange by IAG on a Reset Date

IAG may deliver an Issuer Exchange Notice to Holders at least 35 Business Days prior to a Reset Date in respect of some or all of the RPS2 they hold. The Issuer Exchange Notice will include which one of the following methods of Exchange it intends to apply on the Reset Date:

- convert the RPS2 into Ordinary Shares; or
- redeem, buy-back or cancel the RPS2 for their Face Value subject to prior approval by APRA.

In this circumstance, Exchange only occurs on the Reset Date. See clause 3.3 of the Terms of Issue.

IAG may not issue an Issuer Exchange Notice to convert only some of the RPS2 on issue if it would result in the aggregate RPS2 on issue being less than $100 million.

3.12 ◦◦◦ Can an Exchange occur on a date other than a Reset Date?

Other than on a Reset Date, all (but not some of) the RPS2 can be Exchanged by:

- the Holder upon a Trigger Event (see section 3.13); and
- IAG on a Tax Event, Regulatory Event (eg. if the RPS2 no longer qualify as Tier 1 Capital – see 'Regulatory classification' and 'Accounting treatment' risks in section 5.1) or following certain takeovers or schemes of arrangement (see clause 3.3 of the Terms of Issue).

3.13 ◦◦◦ What is a Trigger Event?

Trigger Events include the following:

- non-payment in full of Dividends within 20 Business Days of a Dividend Payment Date, excluding where non-payment is due to one or more of the payment conditions in clause 2.2 of the Terms of Issue not having been satisfied;
- occurrence of conventional insolvency-type events in relation to IAG;
- a change in control of IAG by a takeover bid, or scheme of arrangement;
- the suspension of the RPS2 or Ordinary Shares from trading on ASX for more than 20 successive Business Days; and
- an announcement by IAG of its intention to sell all, or substantially all, of its business undertakings or assets.

See clause 3.2 of the Terms of Issue for full details of Trigger Events.

3.14 ◦◦◦ What happens on conversion?

Each of the RPS2 that are to be converted will convert into Ordinary Shares with reference to the VWAP on the 20 Business Days immediately before the Exchange Date.

This means that the number of Ordinary Shares issued on any conversion will vary depending on the Ordinary Share price over the 20 Business Days immediately before the Exchange Date. On a conversion, where a Holder delivers a Holder Exchange Notice prior to a Reset Date, Holders receive Ordinary Shares with a value of $100 per RPS2 held (calculated with reference to the VWAP on the 20 Business Days immediately prior to the Exchange Date). On any other conversion, Holders will receive Ordinary Shares with a value of $102.56 per RPS2 held calculated on the above basis. See clauses 3.5 and 3.6 of the Terms of Issue.

On any conversion, each of the RPS2 will convert into Ordinary Shares that will rank equally in all respects with all other Ordinary Shares then on issue from the Exchange Date.

3.15 ◦◦◦ What happens in the event of redemption?

On redemption, or if IAG buys back or cancels the RPS2, each of the RPS2 will be redeemed, bought back or cancelled at their Face Value. IAG may only do this if APRA gives prior approval. Redemption, buy-back or cancellation of RPS2 may be restricted in certain circumstances if, at that time, dividend payments have been outstanding on RPS1 for more than 20 Business Days.

3.16 ◦◦◦ Can the RPS2 be traded on ASX?

IAG will apply within seven days after the date of this Prospectus for the RPS2 to be quoted on ASX. Once quoted on ASX, the RPS2 can be purchased or sold through any stockbroker in Australia. The price may be higher or lower than the Face Value and will depend, among other things, on the level of supply and demand for the RPS2.

3.17 ◦◦◦ Can a Holder require a repurchase, buy-back or redemption of their RPS2?

Holders cannot require IAG to repurchase, buy-back or redeem their RPS2.

3.18 ◦◦◦ In a winding up, what will Holders receive?

In the event of a winding up of IAG, Holders will be entitled to a return of capital of up to the Face Value and any due but unpaid Dividend after all creditors and other liabilities of IAG have been paid. The RPS2 do not confer any further right to participate in a distribution of IAG's assets. In a winding up, the Holders will rank ahead of Ordinary Shareholders and equal to holders of RPS1 and holders of any equally ranking preference shares issued after the RPS2.

In the event of a shortfall of funds on a winding up such that there are not sufficient funds to pay this amount to all Holders, Holders will not receive a full return, but will receive a pro rata return with other preference shareholders ranking equally with the RPS2, including holders of RPS1 and holders of any equally ranking preference shares issued after the RPS2.

3.19 ◦◦◦ What are the taxation implications of holding or selling the RPS2?

The taxation implications of investing in the RPS2 will depend on the Holder's individual circumstances. Investors should obtain their own taxation advice. A summary of some of the relevant taxation matters is set out in section 6.

3.20 ◦◦◦ Do the RPS2 have voting rights?

The RPS2 do not have voting rights at general meetings of IAG, except in limited circumstances (see clause 6 of the Terms of Issue) in which case each of the RPS2 will carry the same voting rights as if they were converted into Ordinary Shares immediately prior to the meeting. Those circumstances include where a proposal is made that affects rights attached to the RPS2 and when a Dividend or part of a Dividend is in arrears.

You should read the whole of this Prospectus carefully. If you are unclear in relation to any matter or uncertain if the RPS2 are a suitable investment for you, you should consult your stockbroker, accountant or other professional adviser.

section 4

IAG and its operations

4.1 ◦ ◦ ◦ Overview of business

Insurance Australia Group is the largest general insurance group in Australia and New Zealand (as measured by Gross Written Premium (GWP) in both countries). In the year ended 31 December 2002, the Group's GWP on a pro forma basis totalled approximately $6.0 billion*.

The Group manufactures and distributes personal and commercial insurance products and manages government workers' compensation schemes. The Group owns a variety of brands through which these general insurance products are distributed. These brands include NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State and NZI.

The Group also provides a range of retirement financial products and services under the ClearView Retirement Solutions brand.

IAG, under its former name of NRMA Insurance Group Limited, listed on the Australian Stock Exchange in August 2000. Its name and ASX code (IAG, formerly NRM) were changed in January 2002 to better reflect the Group's size, diversity, geographical distribution and aspirations. IAG has a market capitalisation of $5.2 billion as at 19 May 2003, ranking it among the largest 30 Australian listed companies.

The Group has grown significantly over the past five years, expanding throughout the Australian and New Zealand general insurance markets, both organically and through acquisitions and strategic ventures in the general insurance market.

* Pro forma GWP of $6.0 billion is the aggregate of the Group's consolidated GWP for the half year ended 31 December 2002, doubled to give an annualised amount ($3.8 billion) and the aggregated GWP for CGU and NZI for the year ended 31 December 2002 ($2.2 billion). The pro forma financial information is provided for information purposes only and is not a forecast of operating results to be expected in future periods. The actual financial performance of the Group for the full year ended 30 June 2003 will only contain CGU and NZI financial performance from 2 January 2003.

Most notably, in January 2003, the Group completed the acquisition of the Australian and New Zealand general insurance operations of Aviva plc, being CGU and NZI (Acquisition), for $1,855 million. This Acquisition has significantly enhanced the Group's position in terms of GWP and policies on issue, as well as by diversification by product line, geographic spread and distribution channel.

As a combined business, the Group expects to extract $160 million per year in pre-tax expense synergies. These synergies are expected to result from a combination of Underwriting and operating efficiencies, including claims management, Underwriting processes and rationalisation of corporate and shared services costs. The Acquisition is expected to be earnings per Ordinary Share (EPS) positive during the half year ended 31 December 2004 (pre amortisation of goodwill). It is also expected to increase EPS in the range of 10%–15% in the third year following the Acquisition.

Other recent acquisitions and strategic ventures include:

- acquisition of the non-risk workers' compensation business from Zurich Insurance Australia Limited in January 2003;
- acquisition of in-force policies and renewal rights to HIH Insurance Limited's Australian workers' compensation business and non-risk workers' compensation business in March 2001;
- acquisition of State Insurance Limited in New Zealand in February 2001;
- joint venture with RACV to form Insurance Manufacturers of Australia Pty Limited in December 1999; and
- acquisition of SGIO Insurance Limited, with insurance operations in Western Australia and South Australia (the latter is known as SGIC Insurance Limited) in 1998.

The following charts summarise the Group's GWP by product line, geographic spread and distribution channel and include pro forma information to give an indication of the Group's profile following the Acquisition. The pro forma financial information is provided for information purposes only and is not a forecast of operating results to be expected in future periods. The GWP for the pro forma Group of approximately $6.0 billion assumes the Acquisition was completed as at 1 January 2002 and is the aggregate of:

- the Group's consolidated GWP for the half year ended 31 December 2002 of $1.9 billion, doubled to give an annualised amount of $3.8 billion; and
- CGU and NZI aggregated GWP for the year ended 31 December 2002 of $2.2 billion.

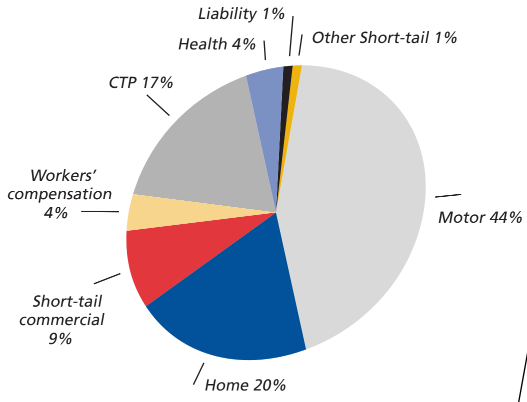
Insurance Australia Group – GWP

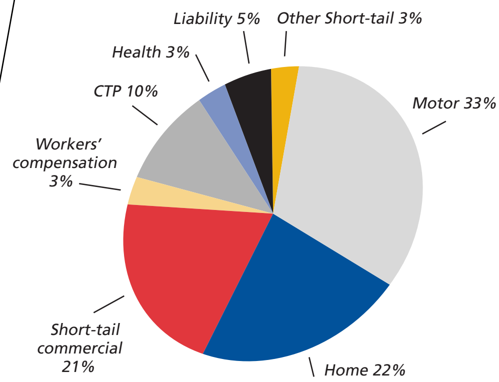
Based on the Group's consolidated GWP for the half year ended 31 December 2002 of $1.9 billion, doubled to give an annualised amount of $3.8 billion, which does not include CGU and NZI

Pro forma – GWP

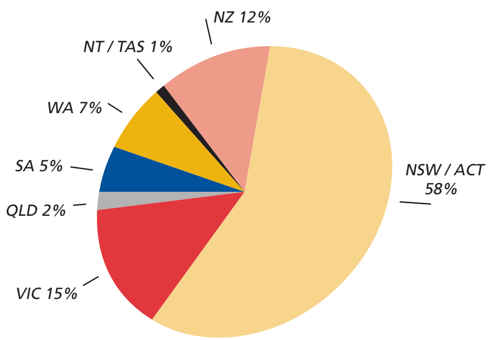
Based on the Group's pro forma GWP of $6.0 billion, which includes CGU and NZI

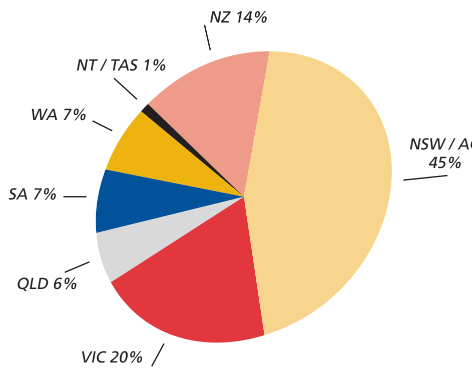
Product Line



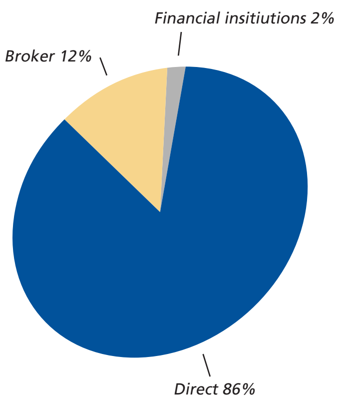


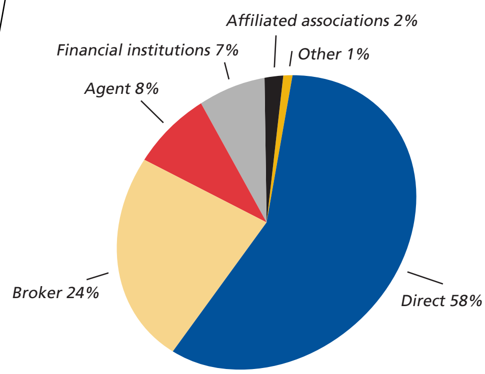
Geographic Spread





Distribution Channels



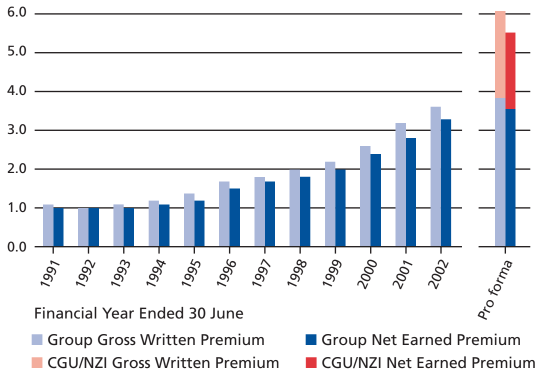


4.2 ○ ○ ○ Financial profile and performance

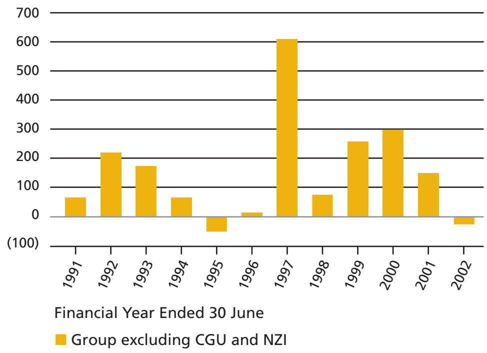
For the half year ended 31 December 2002 the Group recorded a profit for shareholders of $62 million after tax and outside equity interests and GWP of $1,886 million. This represents an increase in net profit of 27% and GWP of 13% compared to the previous corresponding period. The Group's financial performance for the half year ended 31 December 2002 did not include the financial performance of the CGU and NZI businesses as the Acquisition was completed on 2 January 2003. For the full year to 31 December 2002, the CGU and NZI businesses generated $2,270 million in GWP and a net profit attributable to shareholders of $48 million.

The following graphs provide a historical summary of the growth in the Group's GWP and Net Earned Premium since 1991 to the full year ended 30 June 2002 and the Group's financial performance over that time period. Pro forma amounts for GWP and Net Earned Premium are the aggregate of those items for the Group for the half year ended 31 December 2002, doubled to give an annualised amount, and the aggregated GWP and Net Earned Premium for CGU and NZI for the full year ended 31 December 2002.

Gross Written Premium versus Net Earned Premium ($ billion)



Profit / (loss) attributable to shareholders ($ million)



Notes

- *The financial information for years 1991 to 2000 relates to the consolidated operations of NRMA Insurance Limited prior to the acquisition by IAG (then known as NRMA Insurance Group Limited).*
- *In relation to the financial information for year ended 30 June 2001, IAG commenced operation on 22 July 2000 when it acquired NRMA Insurance Limited and its controlled entities upon demutualisation of NRMA Insurance Limited. Financial information used above, however, represents the full year of operation, including the three weeks prior to the acquisition of NRMA Insurance Limited and its controlled entities by IAG.*
- *The financial information in these charts is from the audited consolidated financial statements for the full years ended 30 June, except for the pro forma financial information which is unaudited.*

As shown in the graph above, the reported profit/(loss) of the Group over the past 12 years has been volatile. While there is inherent volatility in general insurance operations, the biggest source of volatility for the Group in the past six years has been from equity investment market performance. The Group is required to mark to market the majority of its substantial investment portfolio, with any changes in market values of these investments reported as part of the financial performance for the period.

The Group has significantly reduced its exposure to equity investment markets over the past year by re-weighting the investment mix of its Technical Reserves portfolio towards fixed interest investments and putting in place instruments to hedge the volatility of the remaining equity investments. These strategies have reduced the sensitivity of the Group's earnings to movements in equity markets. As at 30 April 2003, the sensitivity of the Group's profit before tax to movements in the market value of its combined equity portfolios was as follows:

- a 1% rise in the equity markets would generate a gain of around $13.1 million; and
- conversely, a 1% fall in the equity markets would generate a loss of around $12.1 million.

The sensitivity numbers should be interpreted with care owing to the non-linear nature of the tactical option protection. For example, as at 30 April 2003:

- a 10% rise in the markets would generate a gain of approximately $147.8 million; and
- a 10% fall in the markets would generate a loss of approximately $98.6 million.

These figures are an update from the sensitivities released to ASX by IAG on 7 April 2003 and are by nature dynamic. They include the effect of increases in key equity market indices during April 2003.

The Group has delivered GWP growth in excess of 150% over the seven years ended 30 June 2002. This growth has been approximately 50% organic and 50% from acquisition. The three years from 1 July 1999 to 30 June 2002 contributed double-digit growth in Net Earned Premium, achieving a compound annual growth rate of 17.6% per year. This increased scale and diversity, combined with the extent of the Group's Reinsurance arrangements, assist in reducing the exposure of the Group to the inherent volatility of its general insurance operations.

IAG's statutory reports since listing and related investor reports are available on the Company's website at **www.iag.com.au**.

The following table shows the Group's financial performance for the full year ended 30 June 2002 and the half year ended 31 December 2002. **The financial performance of CGU and NZI are not included as the Acquisition was completed on 2 January 2003**.

INSURANCE AUSTRALIA GROUP LIMITED
Consolidated Statement of Financial Performance

($ million)	Full year ended 30 June 2002[1]	Half year ended 31 December 2002[1]
Gross written premium	**3,558**	**1,886**
Gross earned premium	**3,448**	**1,868**
Reinsurance expense	(253)	(69)
Net premium revenue	3,195	1,799
Net claims expense[2]	(2,425)	(1,382)
Underwriting expense	(628)	(346)
Underwriting profit	**142**	**71**
Investment income on technical reserves	136	219
Insurance profit	**278**	**290**
Financial services	(5)	2
Net corporate expenses	(42)	(14)
Amortisation and interest	(67)	(39)
Profit from fee based businesses	32	2
Investment income/(loss) on shareholders' funds	(234)	(129)
Investment income/(loss) on external funds	(75)	12
NSW insurance protection tax	(21)	(9)
Non-recurring items[3]	33	-
Profit/(loss) before income tax	**(101)**	**115**
Income tax (expense)/benefit	18	(18)
Profit/(loss) after income tax	**(83)**	**97**
Outside equity interests	58	(35)
Profit/(loss) attributable to shareholders	**(25)**	**62**
Dividends paid on RPS1	-	11
Insurance ratios	%	%
Loss ratio	75.9	76.8
Expense ratio	19.7	19.2
Combined ratio	95.6	96.0
Insurance margin	8.7	16.1

Notes [1] *The financial information for the full year ended 30 June 2002 is audited. The financial information for the half year ended 31 December 2002 has been reviewed by the auditors.*

[2] *Includes Reinsurance Recoveries (whole of account aggregate stop loss valuation) of $185 million and net claims from the events of 11 September 2001, major storms and bushfires ($100 million) for the year ended 30 June 2002.*

[3] *Non recurring items – profit on sale of NRMA Building Society Limited ($45 million) less 'Share the Future' legal expenses ($12 million).*

The Group's key operating performance measures relate to its general insurance operations. The Group recently revised its targets as it believes the business, post integration of CGU and NZI, will sustain improved operating targets. The Group is now targeting a Combined Operating Ratio (COR) for the consolidated group of 96.0%–98.0% and an Insurance Margin in the range of 9.0%–11.0%. For the half year ended 31 December 2002, the Group reported a COR of 96.0% and an Insurance Margin of 16.1%. Importantly, for the half year ended 31 December 2002, the Group's Insurance Margin benefited from a reduced number of motor vehicle claims due to record low rainfall in New South Wales. For the full year ended 30 June 2003 the Group expects the Insurance Margin to return to more sustainable levels.

The Group has declared five dividends on Ordinary Shares and two on RPS1 since listing and also conducted two Ordinary Share buy-backs, which included a dividend component. All dividends have been fully franked. At 31 December 2002, the Group had a franking balance in excess of $300 million (providing the capacity to pay fully franked dividends of approximately $700 million).

The following table shows the financial performance of CGU and NZI for the full years ended 31 December 2001 and 2002.

CGU AND NZI
Aggregated Statement of Financial Performance

($ million)	31 December 2001	31 December 2002
Gross written premium	**1,947**	**2,270**
Net premium revenue	**1,644**	**1,909**
Net claims expense	(1,089)	(1,295)
Underwriting expense	(585)	(640)
Underwriting loss	**(30)**	**(26)**
Investment income	191	90
Other	(10)	(8)
Profit before income tax	**151**	**56**
Income tax (expense)/benefit	(40)	(8)
Profit after income tax	**111**	**48**
Insurance ratios	%	%
Loss ratio	66.2	67.8
Expense ratio	35.6	33.5
Combined ratio	101.8	101.3

Note *The aggregated statement of financial performance presented for CGU and NZI is simply the aggregated financial performance without any consolidation adjustments and is unaudited. The NZI financial statements have been converted into Australian currency using the average exchange rate of NZ$1.00 = A$0.8123 and A$0.8530 for the full year ended 31 December 2001 and 31 December 2002 respectively. The individual financial statements for CGU and NZI for the full years ended 31 December 2001 and 31 December 2002 are audited.*

4.3 Capital management

The Group's capital management strategy is aimed at optimising the appropriate level and mix of capital for its business needs, risk appetite and delivery of sustainable attractive returns to shareholders. The level of capital and mix of capital targeted is set around three sets of parameters:

- a risk of ruin of 1 in 750 years;
- a 'AA' rating for its main operating entities; and
- a Group risk-weighted minimum capital requirement (MCR) multiple of between 1.35 – 1.65 times the MCR, where the MCR is set by applying the principles of the APRA regulatory capital regime to all of the Group's operations.

As at 30 April 2003, the Group was within its target MCR multiple range of 1.35 – 1.65 times the MCR. Completion of the Offer will add to the Group's capacity to operate within this range by increasing its Tier 1 Capital.

The proceeds of the Offer will be used to refinance existing senior debt obligations. The issue of RPS2 is consistent with the Group's capital management strategy in that it strengthens the Group's financial position and involves IAG issuing Tier 1 regulatory capital in a different form than Ordinary Shares.

The Offer follows a number of capital initiatives undertaken as part of the Acquisition. The purchase price of $1,855 million was funded initially by way of a bridging facility, which was put in place pending the raising of equity and placing of long term debt and hybrid capital in the capital markets. The Group has retired the bridge facility using existing funds and the execution of five capital raising initiatives:

- $500 million of Ordinary Share capital issued through an institutional placement at $2.55 per Ordinary Share (in two stages, completed 24 October and 19 November 2002 respectively);
- $300 million of dated subordinated notes, issued by NRMA Insurance Limited (completed 27 November 2002);
- $380 million of Ordinary Share capital issued through an underwritten Share Purchase Plan at $2.40 per Ordinary Share (completed 12 December 2002);
- $75 million of Ordinary Share capital issued through an underwritten dividend reinvestment plan for Ordinary Shares at $2.79 per Ordinary Share (completed 14 April 2003); and
- $401 million (US$240 million) of dated subordinated notes, issued by NRMA Insurance Funding 2003 Limited (a wholly owned subsidiary of NRMA Insurance Limited) (completed 28 April 2003). Foreign currency swaps are in place to completely hedge both the principal and interest payments for movements in the A$/US$ exchange rate on this loan capital.

In addition, the Group proposes to utilise its dividend reinvestment plan for Ordinary Shares as a capital management tool, providing flexibility in managing the Group's capital position.

Tier 1 Capital

IAG, under new guidelines developed by APRA, is authorised to be a non-operating holding company (NOHC). This is on the basis of its ownership of a number of APRA licensed entities.

APRA has the ability to impose prudential requirements on entities it regulates. This includes imposing conditions regarding regulatory capital requirements as well as the mix and quality of that capital. APRA has put in place prudential regulatory requirements for general insurer entities and authorised NOHCs.

In terms of these requirements, APRA requires a general insurer entity to maintain a capital base in excess of APRA's minimum capital requirement. APRA divides a general insurer's capital base into Tier 1 and Tier 2 Capital, and requires that Tier 1 Capital constitutes at least 50% of its capital base. To date, APRA has not issued capital requirements for NOHCs, but the Group understands that APRA proposes that the capital base of a NOHC is to be calculated in accordance with the capital adequacy requirements for general insurer entities.

IAG is satisfied that the RPS2 will constitute Tier 1 Capital. Funding part of this capital base by RPS2 should be beneficial to IAG as the RPS2 are a less expensive form of Tier 1 Capital than Ordinary Shares on the assumption that IAG achieves its targeted return on equity.

However, if APRA subsequently determines that the RPS2 do not constitute Tier 1 Capital, IAG may decide that a Regulatory Event has occurred. This would enable IAG to convert the RPS2 into Ordinary Shares or, subject to APRA's approval, redeem, buy-back or cancel the RPS2 for their Face Value. See section 5 and clause 3.3 of the Terms of Issue.

4.4 ◦◦◦ Pro forma financial information

The following pro forma financial information assumes $200 million is raised through the issue of the RPS2. It sets out the Group's summarised pro forma statement of financial position as at 31 December 2002 assuming that the RPS2, the Acquisition and the associated funding were completed on 31 December 2002.

Statement of financial position

The basis of preparation of the Group's summarised pro forma statement of financial position is detailed below. The purpose of the pro forma statement of financial position is to present the Group's financial position as at 31 December 2002 and adjust it for the:

- Acquisition by aggregating the financial position of CGU and NZI as at 31 December 2002 with goodwill and completion adjustments;
- funding adjustments from capital raisings executed since 31 December 2002; and
- effects of the RPS2 Offer.

1 The Group

The Group's summarised consolidated statement of financial position is taken from the financial statements for the half year ended 31 December 2002 which were reviewed by the auditors. The statement of financial position does not include CGU and NZI, as the Acquisition was completed on 2 January 2003.

2 The Acquisition

The summarised statement of financial position for the Acquisition has been taken and aggregated from the audited financial statements of CGU and NZI for the full year ended 31 December 2002, without any consolidation adjustments, and adjusted for the expected goodwill and completion adjustments arising from the Acquisition.

The completion adjustments that have been made to the audited financial statements are as follows:

- CGU and NZI outstanding claims provisions have been adjusted to bring them in line with the Group's methodology and assumptions. This adjustment increases the outstanding claims provision by $244 million (before tax);
- a restructuring provision of $60 million (before tax) has been raised from a total estimated integration and restructuring cost of $145 million. The other $85 million does not meet the accounting standard requirements for inclusion as a restructuring provision and will be expensed as incurred; and
- direct transaction costs of the Acquisition estimated at $10 million are accounted for as a component of goodwill recognised on the Acquisition of $1,076 million.

3 The Funding

The funding adjustments are those capital raisings that have occurred since 31 December 2002 to the date of this Prospectus. These adjustments exclude capital raisings that were completed as at 31 December 2002 including the institutional placement of Ordinary Shares, the Share Purchase Plan and the issue of $300 million of dated subordinated debt which are already reflected in the Group's financial position as at that date.

The funding adjustments after 31 December 2002 are as follows:

- the drawdown of a bridge facility of $480 million to fund the completion of the Acquisition of $1,787 million (net of intercompany receivables existing as at 31 December 2002). The bridge facility was fully repaid by the following capital raisings:
  - the issue of $82 million of commercial paper; and
  - a private placement of subordinated notes to international investors of $401 million; and
- $75 million of Ordinary Shares dividends paid by IAG in April 2003 was reinvested in the Group under a fully underwritten dividend reinvestment plan.

4 The RPS2

The capital raised through the issue of the RPS2 assumes $195 million (net of transaction costs) will be applied to reduce existing senior debt obligations.

INSURANCE AUSTRALIA GROUP LIMITED

Consolidated Pro forma Statement of Financial Position as at 31 December 2002

($ million)	1 The Group[1]	Pro forma adjustments[2] 2 Acquisition	3 Funding	4 RPS2	Pro forma[2]
Cash and investments	8,925	2,663	(1,307)	-	10,281
Other assets	2,289	1,906	3	-	4,198
Intangibles	616	1,076	-	-	1,692
Total assets	**11,830**	**5,645**	**(1,304)**	**-**	**16,171**
Claims outstanding and unearned premium	5,744	3,338	-	-	9,082
Current senior borrowings	301	-	82	(195)	188
Non-current senior borrowings	92	-	-	-	92
Non-current subordinated borrowings	300	-	401	-	701
Other liabilities	1,605	520	-	-	2,125
Total liabilities	**8,042**	**3,858**	**483**	**(195)**	**12,188**
Net assets	**3,788**	**1,787**	**(1,787)**	**195**	**3,983**
Ordinary Shares	3,364	-	75	-	3,439
Reset preference shares	343	-	-	195	538
Accumulated losses	(402)	-	(75)	-	(477)
Foreign currency translation reserves	(4)	-	-	-	(4)
Outside equity interests	487	-	-	-	487
Total equity	**3,788**	**-**	**-**	**195**	**3,983**

Notes [1] *The Group's financial position as at 31 December 2002 does not include CGU and NZI as the Acquisition was completed on 2 January 2003. This information has been reviewed by the auditors.*

[2] *The pro forma adjustments and the pro forma statement of financial position are unaudited.*

Effect of RPS2 on EPS and return on equity

The precise effect of the issue of RPS2 on EPS and return on equity on a pro forma basis for the most recent historical financial period (half year ended 31 December 2002) cannot be meaningfully determined as the Offer is part of a number of financing transactions related to the Acquisition which was not completed during that financial period.

The Group intends to use the funds raised through the issue of the RPS2 to refinance existing senior debt obligations. This will result in an ongoing benefit to the Group's net profit attributable to shareholders from the reduction in interest expense from the refinanced senior debt estimated to be $9.4 million per year before tax.

4.5 Credit ratings

RPS2 and some subsidiaries of IAG have been rated on an interactive basis by Standard & Poor's Ratings Services (S&P). At the date of this Prospectus those ratings are as follows:

Issue Credit Rating	
Insurance Australia Group Limited RPS1	'A-'
Insurance Australia Group Limited RPS2	'A-'
Insurer Financial Strength Ratings	
NRMA Insurance Limited	'AA'
IAG New Zealand Limited	'AA'
CGU Insurance Limited	'AA-'
New Zealand Insurance Limited	'AA-'
Swann Insurance (Aust) Pty Limited	'AA-'
Long-Term Counterparty Credit Ratings	
NRMA Insurance Limited	'AA'/Stable Outlook
IAG New Zealand Limited	'AA'/Stable Outlook
CGU Insurance Limited	'AA-'/Stable Outlook
New Zealand Insurance Limited	'AA-'/Stable Outlook
Swann Insurance (Aust) Pty Ltd	'AA-'/Stable Outlook

S&P Issue Credit Ratings are not 'market' ratings, nor are they a recommendation to buy, hold or sell securities (including the RPS2).

S&P Insurer Financial Strength Ratings are not a recommendation to purchase or discontinue any policy or contract issued by an insurer or to buy, hold or sell any security issued by an insurer.

As at the date of this Prospectus, IAG has not approached any other rating agency for a rating of the RPS2.

Ratings are subject to revision or withdrawal at any time.

Rating definitions used by S&P are as follows:

- an Issue Credit Rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program;
- an Insurer Financial Strength Rating is a current opinion of the financial security characteristics of an insurance organisation with respect to its ability to pay under its insurance policies and contracts in accordance with their terms;
- a Long-Term Counterparty Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations; and
- a Rating Outlook assesses the potential direction of a Long-Term Counterparty Credit Rating over the intermediate term (typically six months to two years). In determining a Rating Outlook, consideration is given to any changes in the economic and/or fundamental business conditions. A Rating Outlook is not necessarily a precursor of a rating change or future CreditWatch action.

Issues rated 'BBB-' or higher by S&P are considered to be investment grade. **RPS2 have been assigned an 'A-' rating by S&P and are therefore investment grade**.

According to S&P:

- an Issue Credit Rating of 'A' describes an obligor that has a strong capacity to meet its financial commitment on the obligation;
- an Insurer Financial Strength Rating of 'AA' describes an insurer that has very strong financial security characteristics;
- a Long-Term Counterparty Credit Rating of 'AA' describes an obligor that has a very strong capacity to meet its financial commitments;
- the ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories; and
- a Rating Outlook 'Stable' means that a rating is not likely to change.

section 5

Investment risks

Before applying for the RPS2, investors should consider whether the RPS2 are a suitable investment for them. Investors should be aware that there are risks associated with an investment in the RPS2, many of which are outside the control of IAG. These risks include those set out in this section and other matters referred to in this Prospectus.

The investment risks can be categorised as:

- risks associated with investing in the RPS2; and
- risks attaching to the Group and associated with the insurance industry generally.

5.1 ◦ ◦ ◦ Risks associated with investing in the RPS2

Set out below are specific risks associated with an investment in the RPS2.

Financial market conditions

The market price of the RPS2 will fluctuate due to various factors, including interest rates, general movements in the Australian and international equity markets, investor sentiment, worldwide or regional economic conditions, movements in the market price of Ordinary Shares, and factors which may affect IAG's financial position and earnings. The market price of the RPS2 may be more sensitive than Ordinary Shares to changes in interest rates.

Market Price and liquidity of RPS2

IAG is not able to predict the market price or liquidity of the RPS2 on ASX. Application has been made for permission to quote the RPS2. All requirements of ASX relating to quotation of the RPS2 that can be complied with on or before the date of distribution of the Prospectus have been duly complied with.

The market on ASX for the RPS2 may be less liquid than the market on ASX for the Ordinary Shares or the RPS1.

It is possible that the RPS2 could trade on ASX at a price below the Face Value. The market value of RPS2 may be affected by the market price of Ordinary Shares. Ordinary Shares held as a result of any conversion would have the same rights as other Ordinary Shares.

Ability to pay Dividends

The RPS2 are not debt instruments, and the Dividends payable are not the same as interest payments. Dividends may not always be paid as the payment of Dividends is subject to a number of conditions. These conditions are:

- the Directors, at their discretion, determining a Dividend to be payable;
- IAG having profits, either current or retained, available for the payment of a Dividend;
- the payment of the Dividend having the result that IAG will still comply with APRA's capital adequacy guidelines regarding the Total Capital Adequacy Ratio and the Tier 1 Capital Ratio of the Group as they are applied at that time;
- unless APRA indicates that it has no objection, the amount of the Dividend not exceeding the profits after tax of the Group for the immediately preceding financial year less the aggregate amount of dividends paid by IAG in the then current financial year; and
- APRA not objecting to the payment of the Dividend.

There is a risk that one or more of these conditions may not be satisfied and a Dividend is not paid (see section 3.8 for the consequences of this for IAG). Like other insurance and financial services groups, due to the Group's volatility of earnings there can be no guarantee that in certain years IAG will have sufficient profits to satisfy the requirement in the fourth bullet point above. In this circumstance (assuming all other conditions are satisfied), IAG may pay a Dividend provided APRA has no objection as was the case for all dividends paid by IAG since 30 June 2002.

See section 5.2 for an outline of the major risks affecting the level of profitability of the Group.

Early Exchange

IAG may Exchange all of the RPS2 at times other than at a Reset Date, including in response to changes in tax laws, changes in the treatment by APRA of the RPS2 or on the occurrence of certain takeovers or schemes of arrangement. This could occur at a time prior to the first Reset Date or between Reset Dates and before a Holder wishes to dispose of their RPS2. This may have negative consequences for a Holder depending on their individual circumstances.

On such Exchange, IAG will either convert the RPS2 into Ordinary Shares or, subject to APRA's prior approval, redeem, buy-back or cancel the RPS2 at their Face Value. The number of Ordinary Shares to be issued on conversion depends on the VWAP on the 20 Business Days prior to the Exchange Date. This may differ to the market price for Ordinary Shares on the Exchange Date.

If IAG redeems, buys back or cancels the RPS2, it will do so at the Face Value. Depending on when a Holder bought the RPS2, this could be higher or lower than the price paid for the RPS2 by the Holder. Redemption, buy-back or cancellation of the RPS2 may be restricted in certain circumstances if, at the time, dividend payments on RPS1 have been outstanding for more than 20 Business Days.

Ranking of the RPS2

On any winding up of IAG, Holders will rank behind creditors of IAG (and equally with RPS1 holders in all respects), but in priority to Ordinary Shareholders to the extent of the Face Value of the RPS2 and any Dividends that are due but unpaid. In the event of a shortfall of funds on a winding up, there is a risk that Holders will not receive a full return of capital or any Dividend due and unpaid at that time. RPS2 rank equally with RPS1 in all respects.

Future issues of securities

Until they are converted, the RPS2 do not give any right to participate in future securities issues or bonus issues by IAG.

IAG may issue other preference shares, including other RPS2, which rank equally with or behind the RPS2, without the approval of the Holders. In addition, IAG may also issue other equity securities that rank equally or behind the RPS2 for dividends or repayment of capital in a winding up of IAG. Such issues could impact the ability of IAG to pay Dividends or the sufficiency of funds on a winding up.

Taxation treatment

A summary of the potential taxation implications for Holders is set out in section 6. This discussion is in general terms and is not intended to provide specific advice in relation to the circumstances of any particular Holder. Accordingly, investors should seek independent advice in relation to their own individual taxation position.

If there is a change to the taxation system that materially increases the costs to IAG of having the RPS2 on issue, IAG may decide that a Tax Event has occurred. This would allow IAG to convert the RPS2 into Ordinary Shares or, subject to APRA's prior approval, redeem, buy-back or cancel the RPS2 for their Face Value. See clause 3.3 of the Terms of Issue. Therefore, the exact period for which Holders will be entitled to the benefit of the rights attaching to the RPS2 is unknown.

Credit ratings

As a result of changes in the Group's operating performance or capital structure, there is a risk that credit ratings of the Group or the RPS2 could be downgraded in the future. This could affect the market price and liquidity of the RPS2 and Ordinary Shares.

Regulatory classification

IAG is satisfied that the RPS2 constitute Tier 1 Capital. However, if APRA subsequently determines that the RPS2 do not constitute Tier 1 Capital, IAG may decide that a Regulatory Event has occurred. This would allow IAG to convert the RPS2 into Ordinary Shares or, subject to APRA's prior approval, redeem, buy-back or cancel the RPS2 for their Face Value. See clause 3.3 of the Terms of Issue.

Accounting treatment

Changes to the accounting standards that apply to the Group are anticipated to impact upon the accounting treatment of RPS2 and consequently may impact the classification by APRA of RPS2 as Tier 1 Capital.

In particular, in July 2002, the Financial Reporting Council announced its formal support for Australia to adopt International Financial Reporting Standards (IFRS) for financial years ending on or after 1 January 2005. Subject to any necessary amendments of the Corporations Act, this will mean that, from 1 January 2005, the accounting standards that apply to reporting entities under the Corporations Act will be the standards issued by the International Accounting Standards Board. It is possible that the Australian Accounting Standards Board may adopt the IFRS before that date.

The IFRS (including proposed changes to the IFRS) will, unless amended before their effective date, result in the RPS2 being classified as a liability rather than as equity in the Group, which may in turn cause APRA to cease to classify RPS2 as Tier 1 Capital. The anticipated reclassification of the RPS2 as a liability (or debt) will result in the Dividends being classified as interest expense in arriving at the net profit or loss after tax attributable to shareholders. This may impact on the ability to pay Dividends.

The anticipated reclassification of the RPS2 as debt instruments following the introduction of IFRS in January 2005 is an accounting classification only and is not expected to impact the Terms of Issue or the legal or taxation status of the instrument. Consequently, the Holder will continue to be entitled to a Dividend after the introduction of IFRS despite the anticipated reclassification of the flows from the RPS2 as interest payments in the statement of financial performance.

While there would be no change to the Terms of Issue of the RPS2, if the RPS2 are no longer classified as Tier 1 Capital, this may constitute a Regulatory Event and would allow IAG to convert the RPS2 into Ordinary Shares or, subject to APRA's prior approval, redeem, buy-back or cancel the RPS2 for their Face Value.

5.2 Risks attaching to the Group and associated with the insurance industry generally

Set out below are risks associated with the Group and the insurance industry generally. These are relevant to an investment in the RPS2 as they affect the level and volatility of the profitability of the Group and therefore its ability to meet its obligations, including its ability to pay Dividends. In addition to other information set out in this Prospectus, the following risk factors should be carefully considered in evaluating the Group and IAG's ability to meet its obligations in respect of the RPS2.

Investment performance

Investment performance can significantly affect the Group's profits and financial position. The Group's investment portfolio consists of assets which back:

- shareholders' funds; and
- outstanding claims and Unearned Premium liabilities (Technical Reserves).

The majority of shareholders' funds are invested in Australian and international equity securities, in accordance with the Group's investment policy. Technical Reserves are fully invested in fixed interest and cash investments.

The level and volatility of investment income derived from equity securities is much greater than the level of volatility experienced with fixed interest and cash investments. To mitigate this risk, the Group has implemented a series of tactical option positions designed to protect the Group's capital position from any large downward movements in equity markets.

These derivative positions are actively managed, in recognition of the changing dynamics of investment markets both in Australia and internationally.

The Technical Reserves assets are subject to fluctuations in interest rates. However, the impact of interest rate movements on the market value of the Group's fixed interest portfolio is largely offset by the corresponding change in the discount rate applied to the Group's outstanding claims reserves. The duration of the Group's Technical Reserves is broadly matched to the duration of the underlying liabilities.

For the sensitivity of the Group's profit before tax to movements in the market value of its equity portfolios, see section 4.2.

Estimation of claims provisions

The Group maintains provisions for unpaid claims and related expenses, which reflect estimates of future claims, inflation trends and other factors.

Although the Group seeks to maintain claims provisions at a level of 90% Probability of Sufficiency, the establishment of appropriate provisions is an inherently uncertain process, especially for Long-tail classes of business. There can be no assurance that the Group's provisions will be sufficient.

Integration risks

On 18 October 2002, the Group announced the Acquisition. The final approvals required were granted on 20 December 2002, and the Acquisition was completed on 2 January 2003.

There are a number of risks associated with the integration of the businesses acquired as part of the Acquisition, including:

- the Group may not realise the expected benefits of the Acquisition, including the synergies identified as part of the Group's financial analysis of the businesses;
- the Group may incur additional costs associated with the integration of the businesses which may be greater than expected;
- under the terms of the Acquisition, the Group will assume certain business and contingent liabilities and may also become liable in respect of any successful litigation against these businesses; and
- under the terms of the Acquisition, the Group has only limited warranties and indemnities.

Business concentration

While a number of acquisitions (including the recent Acquisition) and strategic alliances have increased the diversification of the Group's business mix, its operations are still relatively concentrated around the private motor and home insurance markets and within New South Wales, Victoria and the Australian Capital Territory. As a result, the performance of the products and business written in these markets will significantly affect the Group's performance.

The Group has a significant exposure to the New South Wales Compulsory Third Party insurance market and the Western Australian workers' compensation market. Because these are statutory schemes, they are susceptible to future modifications, which could adversely affect the Group's financial performance.

Reinsurance

The Group enters into a significant number of Reinsurance treaties to limit its risk exposure to any one claim, class of business or occurrence of specific events. There can be no assurance that the Group's current Reinsurance coverage is adequate, that Reinsurance coverage will be available at adequate rates and levels in the future, or that reinsurers will pay valid claims.

Catastrophes

General insurers are subject to the risk of large-scale claims arising out of catastrophes, which may have a significant impact on their earnings and financial condition. Catastrophes may include cyclones, earthquakes, wind, hail, floods, fire, volcanic eruptions and explosions, which are inherently unpredictable with regard to incidence and severity.

While the Group has historically managed its exposure to catastrophes through, among other things, the purchase of Reinsurance, there can be no assurance that Reinsurance coverage will continue to be available at acceptable rates and levels or that existing coverage will prove adequate.

Terrorism

Exposure of the Group as a whole to terrorism risk is limited, although this varies to some degree amongst the different classes of business. The Group's commercial insurance exposure to terrorism risk is minimal due to the exclusion clauses active in the commercial property and liability insurances being offered by the Group. For personal lines insurance, the Group's Reinsurance program in Australia currently limits the Group's aggregate exposure to a limited range of terrorism risk. In New Zealand, terrorism exposure is fully excluded for all classes of business.

The Terrorism Insurance Bill is expected to come into effect from 1 October 2003. A key provision of this bill in its current form is that commercial insurance cover must include terrorism exposure. At this stage, the Group's exposure is expected to be limited to an annual aggregate of $1.0 million per licensed insurance company. However, the legislative proposal may change before its introduction.

Changes in Government policy, regulation or legislation

The insurance industry is subject to extensive legislation, regulation and supervision by federal and state regulatory organisations, including APRA. Insurance-specific regulation and supervision is primarily directed to the benefit of policyholders and not Holders. Future legislation and regulatory change, which affects the insurance or financial services industry, may materially adversely affect the Group's business, results of operations and financial condition. This includes changes that may occur as a result of the Federal Government's awaited responses to the conclusions and recommendations of the HIH Royal Commission.

See section 5.1 for the risk associated with changes in 'Accounting treatment'.

Operational risk

Whilst IAG has operational risk management practices, its profitability will continue to be subject to a variety of operational risks including – strategic and business decisions (including acquisitions); technology risk (including business systems failure); reputation risk (including damage to brands); fraud; compliance with legal and regulatory obligations; counter-party performance under outsourcing arrangements; business continuity planning; legal risk; data integrity risk; key person risk; and external events.

Competition

There is significant competition within the general insurance industry in Australia and New Zealand. Pressure on premium rates arising from legislative developments, or general competitive factors, may adversely impact the Group's Underwriting Results, market share and financial condition.

Economic and industry conditions

The Group's performance depends significantly on economic conditions in Australia and New Zealand, and on global economic conditions that affect the economy of both countries. Changes in economic conditions can affect the financial results of the Group through their effect on market conditions and investment income and through changes in consumer demand for the Group's products and services. The Group cannot predict the impact that future economic and industry conditions will have on its business. Future economic and industry conditions may be unfavourable, and as a result there can be no assurances that future conditions will not materially adversely affect the Group's profitability.

Litigation

The Group is currently involved in a number of legal proceedings relating to policies underwritten by them. There can be no assurance that the outcome of these or other proceedings will not have a material effect on the Group's business, financial condition or results of operations.

The above summary is not exhaustive. Investors should read this Prospectus in its entirety and consult their stockbroker, accountant or other professional adviser before deciding whether to apply for the RPS2.

Taxation implications

section 6

Taxation

Following is a summary of the principal Australian income tax, goods and services tax and stamp duty consequences of acquiring, holding and disposing of the RPS2. The summary is based on Australian revenue law, public taxation rulings and determinations and administrative practice current as at the date of this Prospectus.

This discussion relates only to Holders who are residents of Australia for Australian taxation law purposes.

The following comments concerning the taxation position of Holders are necessarily general in nature and investors should seek and rely on their own taxation advice. The taxation consequences associated with an investment in the RPS2 will depend upon the particular circumstances of that person. Investors should not rely on this explanatory outline for their own taxation purposes.

Receipt of Dividends

The RPS2 will be characterised as ‘equity interests’ for income tax purposes. Accordingly, Dividends paid on the RPS2 will be ‘frankable’. Such Dividends may be franked, unfranked or only partly 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 (including any Optional Dividend) that they receive on their RPS2. To the extent that a Dividend is franked, a Holder will be required to include in their assessable income the franking credit attached to that Dividend. Subject to the comments below regarding ‘qualified persons’, a Holder is then entitled to a tax offset equal to the franking credits attached to the Dividend. Furthermore, Holders who are resident individuals, certain exempt institutions, trustees who are assessed on a resident beneficiary’s share of trust income, complying superannuation funds, complying approved deposit funds and pooled superannuation trusts and life insurance companies may be entitled to a refund of any excess franking credits.

A Holder must be a ‘qualified person’ regarding a Dividend paid on their RPS2 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 RPS2 if they have held their RPS2 at risk for at least 45 days. A Holder will also be a ‘qualified person’ if they have previously made an election with the Commissioner of Taxation to have a franking rebate ceiling applied to them. Holders are strongly recommended to seek their own tax advice if they are uncertain as to how the ‘qualified person’ rules might apply to their circumstances.

Investors in the RPS2 will be provided with the opportunity to disclose their TFN. Although disclosure of their TFN is not compulsory, Holders should be aware that, unless they are exempt from the TFN provisions, failure to disclose their TFN might result in an amount of tax being deducted from the Dividend payments at the top marginal tax rate (plus Medicare levy). Alternatively, where a Holder holds their RPS2 in the course or furtherance of an enterprise carried on by it, the Holder may quote their ABN.

Conversion of the RPS2

Each RPS2 will be a ‘CGT asset’ under the capital gains provisions. The Terms of Issue provide that conversion of an RPS2 constitutes a variation of the status of, and rights attaching to, the RPS2 so that it becomes an Ordinary Share. There is no cancellation, redemption or termination of the RPS2 or the issue, allotment or creation of a new share in that circumstance. Accordingly, conversion of an RPS2 to an Ordinary Share should not result in a CGT event happening to the Holder.

In accordance with the Terms of Issue, each Holder will also be allotted an additional number of Ordinary Shares upon conversion. The additional Ordinary Shares will be issued for no consideration. For capital gains purposes in determining the cost base to the Holder of the Ordinary Shares the Holder now holds, the cost base of the original RPS2 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 RPS2 were acquired by the Holder.

Similarly, in determining the cost of the Ordinary Shares to the Holder where the Holder does not hold the RPS2 as a capital asset (for example, they hold the RPS2 in the course of a business of trading or dealing in such securities), the cost of the original RPS2 to the Holder should be spread across the Ordinary Share into which it converts and the additional Ordinary Shares.

Disposal of the RPS2 (prior to conversion)

A sale or other disposal of an RPS2 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 RPS2 over the cost base of the RPS2 to the Holder. The cost base of the RPS2 would include the amount paid by the Holder to acquire the RPS2 (whether upon issue by IAG or purchase from a previous Holder) as well as the costs associated with the acquisition and disposal of the RPS2 (such as brokerage) incurred by the Holder.

If the Holder is an individual or a trust (other than a trust that is a complying superannuation fund) and has held the RPS2 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 losses) in their assessable income. If the Holder is a complying superannuation fund and has held the RPS2 for at least 12 months, only two-thirds of their capital gain is included in assessable income. Conversely, a capital loss could arise where the capital proceeds are less than the cost base of the RPS2.

Where the Holder does not hold the RPS2 as a capital asset, the excess of the proceeds of sale or disposal over the cost of the RPS2 to the Holder will constitute assessable income on ordinary concepts. A CGT event will still happen to the Holder, but the amount of any capital gain arising to the Holder on the disposal of an RPS2 will be reduced by the amount of such assessable income. Where the proceeds of sale or disposal are less than the cost to the Holder of the RPS2, the Holder should incur a deductible loss. However, the Holder cannot obtain both a deductible loss and a capital loss in respect of the same disposal.

Redemption, buying back or cancellation of the RPS2

A CGT event will happen to a Holder if IAG redeems, buys back or cancels an RPS2 under the Terms of Issue. The comments above regarding the disposal of the RPS2 prior to conversion also apply to the redemption, cancellation or buying back of the RPS2. As a Holder will receive the Face Value if IAG redeems, buys back or cancels an RPS2, it is unlikely that a Holder who acquires the RPS2 upon issue by IAG (as opposed to a Holder who acquires the RPS2 from a previous Holder) would incur a capital gain or loss in that circumstance.

Similarly, where a Holder who acquires the RPS2 upon issue by IAG does not hold the RPS2 as a capital asset, it is unlikely that they would derive an amount of assessable income on ordinary concepts or incur a deductible loss if IAG redeems, buys back or cancels an RPS2.

Stamp duty

IAG proposes to apply to ASX for official quotation of the RPS2. Accordingly, while the RPS2 are quoted on the ASX, stamp duty will not be payable on a transfer of the RPS2.

GST

The transfer of an equity security (for example, a share) is treated as a ‘financial supply’ and is therefore input taxed. GST is not payable on an input taxed supply. Accordingly, the transfer of an RPS2 will be a financial supply and no GST will be payable by the transferring Holder. Further, the conversion of the RPS2 to an Ordinary Share will not constitute a taxable supply and no GST will be payable on this event.

section 7
Additional information

7.1 ◦◦◦ Terms of Issue

The rights attaching to the RPS2 will be governed by:

- the Terms of Issue of the RPS2 set out in Appendix A; and
- IAG's constitution, which sets out the rights attaching to Ordinary Shares into which the RPS2 may be converted in certain circumstances.

IAG is authorised to issue the RPS2 as it passed a special resolution on 22 June 2000 authorising the issue of non-cumulative preference shares.

7.2 ◦◦◦ IAG – information, disclosure & availability

IAG (formerly known as NRMA Insurance Group Limited) was admitted to the official list of ASX on 8 August 2000. IAG is a disclosing entity under the Corporations Act and, as such, is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules.

IAG is required to notify ASX of information about specified events and matters as they arise for the purposes of ASX making that information available to the stock market conducted by ASX. In particular, IAG has an obligation under the Listing Rules (subject to certain exceptions) to notify ASX immediately of any information of which it is or becomes aware concerning IAG which a reasonable person would expect to have a material effect on the price or value of IAG's shares. That information is available on the public file at ASX.

7.3 ◦◦◦ Availability of documents lodged with ASIC

IAG is required to prepare and lodge with ASIC both yearly and half-yearly financial statements accompanied by a Directors' statement and report, with an audit or review report. Copies of these documents lodged with ASIC may be obtained from or inspected at an ASIC office and on the IAG website at **www.iag.com.au**.

7.4 ◦◦◦ Other documents

IAG will provide a copy of any of the following documents free of charge to any person who requests a copy prior to the Closing Date or they can be obtained directly on the IAG website at **www.iag.com.au**:

- the financial statements of IAG for the year ended 30 June 2002 (being the most recent audited annual financial reports lodged with ASIC before the issue of this Prospectus);
- the financial statements of IAG for the half year ended 31 December 2002 (being the most recent reviewed half-yearly financial reports lodged with ASIC before the issue of this Prospectus);
- any other document or financial statement lodged by IAG with ASIC or ASX under the continuous disclosure reporting requirements in the period after the lodgement of the audited financial statements for the year ended 30 June 2002 and before lodgement of this Prospectus with ASIC;
- IAG's constitution; and
- the 22 June 2000 special resolution (see section 7.1).

7.5 ◦◦◦ Summary of rights attaching to Ordinary Shares

Any Ordinary Shares resulting or issued on conversion of the RPS2 will rank equally with existing fully paid Ordinary Shares then on issue. The rights attaching to Ordinary Shares are set out in IAG's constitution and are also regulated by the Corporations Act, the Listing Rules and general law. See section 7.4 for information on how to obtain a copy of IAG's constitution.

The remainder of this section summarises some key rights attaching to Ordinary Shares.

Dividend entitlement

Payment of dividends on Ordinary 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 there being sufficient profits in IAG out of which IAG is lawfully able to pay dividends.

Subject to the rights of any other persons entitled to shares with special dividend rights (such as holders of the RPS1 and RPS2), 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.

Voting rights

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

Transferability of Ordinary Shares

While the Ordinary Shares are quoted on ASX, Ordinary Shareholders will generally be able to sell or transfer Ordinary Shares without restriction. This is subject to the limitations described in section 7.6 in relation to the Financial Sector (Shareholdings) Act 1998 and the Directors' ability to decline to register a transfer in certain limited circumstances.

Entitlement of Ordinary Shares on winding up

Ordinary Shareholders 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 Ordinary Shareholders the right to approve by special resolution various alternative ways in which surplus assets may be dealt with by the liquidator.

7.6 ◦◦◦ Ownership restrictions

Ownership of voting shares in IAG is restricted by the Financial Sector (Shareholdings) Act 1998, as IAG owns various insurance companies that are regulated by that Act. That Act limits the ownership by persons (together with their associates) of companies that are subject to the Act to 15% of the total voting shares in the relevant company. A shareholder may apply to the Australian Treasurer to extend its ownership beyond 15%, but approval depends on the Treasurer being satisfied that a holding by that person of more than 15% is in the national interest.

7.7 ◦ ◦ ◦ Summary of Offer Management Agreement

IAG has entered into an Offer Management Agreement appointing Deutsche Bank and UBS Warburg as Joint Lead Managers and joint bookrunners for the Offer. Following the Joint Lead Managers and IAG agreeing the allocation of the RPS2 to institutional investors and Participating Brokers, and the Margin, the Joint Lead Managers agree to provide IAG with settlement credit support in relation to the allocation of the RPS2 to institutional investors and Participating Brokers.

The material terms of the Offer Management Agreement are summarised below.

Fees

The Joint Lead Managers will be paid the following fees (exclusive of GST, if any) at the close of the Offer:

- a management, and selling fee of 1.50% of the total proceeds of the Offer attributable to the allocations to the general public and institutional investors;
- a management fee of 1.00% of the total proceeds of the Offer attributable to the allocations to the Participating Brokers; and
- a selling fee of 0.75% of the total proceeds of the Offer attributable to the allocations to Participating Brokers.

Expenses

IAG is responsible for the costs and expenses of and incidental to the Offer and the issue of the RPS2.

Termination by Joint Lead Managers

Each Joint Lead Manager may terminate its obligations under the Offer Management Agreement by notice in writing given at any time prior to the issue of the RPS2 to institutional investors and Participating Brokers, if:

(a) ASIC stop order: ASIC issues an order under section 739(1) of the Corporations Act or an interim order under section 739(3) of the Corporations Act or ASIC applies for an order under sections 1324B or 1325 of the Corporations Act in relation to the Prospectus and the application is not dismissed or withdrawn within 2 Business Days;

(b) ASX approval: unconditional approval (or conditional approval, provided such condition would not, in the reasonable opinion of the Joint Lead Managers, have a material adverse effect) by ASX for the official quotation of the RPS2 is refused, or is not granted by the Closing Date, or is withdrawn;

(c) credit rating downgrade: the credit rating assigned to NRMA Insurance Limited or the RPS2 at the date of the Offer Management Agreement by S&P is downgraded or withdrawn or that credit rating is placed on credit watch negative;

(d) lodgement date: IAG fails to lodge this Prospectus with ASIC on or before the lodgement date (or such later date as the Joint Lead Managers may agree in writing);

(e) supplementary prospectus: a supplementary prospectus is, in the reasonable opinion of a Joint Lead Manager, required under section 719 of the Corporations Act, and IAG fails to lodge a supplementary prospectus with ASIC within the time period reasonably required by the Joint Lead Manager in a form approved in writing by the Joint Lead Manager;

(f) material adverse change: there is a material adverse change in the financial position, assets, liabilities, results of operations, profits, forecasts, losses, prospects, business or the directors or senior management of the Group taken as a whole from that reflected in the Prospectus;

(g) withdrawal: IAG withdraws this Prospectus or any part of the Offer;

(h) trading on ASX: trading of Ordinary Shares or RPS1 on ASX is halted (excluding any trading halt initiated for the purposes of conducting the Bookbuild) or quotation of Ordinary Shares or RPS1 on ASX is suspended for more than 3 consecutive Business Days or Ordinary Shares or RPS1 cease to be quoted on ASX; and

(i) any of the following events occur, subject to the Joint Lead Manager having determined reasonably in good faith, that the event has or is likely to have a material adverse effect and the relevant Joint Lead Manager has given notice in the form prescribed by the Offer Management Agreement:

  (i) consent: any person whose consent to the issue of the Prospectus is required by section 720 of the Corporations Act who has previously consented to the issue of this Prospectus withdraws such consent or any person otherwise named in this Prospectus with their consent (other than a Joint Lead Manager) withdraws such consent;

  (ii) Prospectus:

    (A) this Prospectus omits any material required by the Corporations Act or otherwise fails to comply with the Corporations Act, the Listing Rules, any other laws and regulations or any other legally binding requirements of ASIC or ASX;

    (B) in the Joint Lead Manager's reasonable opinion there is:

      I. a misleading or deceptive statement, or a statement that is likely to mislead or deceive, in this Prospectus;

      II. an omission from this Prospectus of material required by chapter 6D of the Corporations Act; or

      III. a new circumstance has arisen since this Prospectus was lodged which would have been required by chapter 6D of the Corporations Act to be included in this Prospectus if the matter had arisen before this Prospectus was lodged;

    (C) the issue or distribution of this Prospectus is misleading or deceptive or likely to mislead or deceive; or

    (D) section 713 does not apply to this Prospectus because ASIC Class Order 00/195; or

    (E) any person gives a notice under section 730 of the Corporations Act.

(iii) due diligence: there is a material omission from the results of the investigation performed under the due diligence investigations or from the verification material or the results of the investigation or the verification material are false or misleading or deceptive;

(iv) unable to issue RPS2: the Company is prevented from allotting and issuing the RPS2 within the time required by the Listing Rules by the ASX or ASIC, any statute or regulation, by the order of a court of competent jurisdiction or by a governmental agency;

(v) revocation of authorisation: any licence, permit, authorisation or consent which is material to anything referred to in the Prospectus or necessary to conduct the business of a member of the Group is repealed, revoked, terminated or expires or is modified or amended in a manner unacceptable to a Joint Lead Manager;

(vi) unauthorised alterations: without the prior written consent of the Joint Lead Managers, a member of the Group alters its share capital (other than in a manner expressly contemplated in the Prospectus) or its constitution in any material respect (except as disclosed to the Joint Lead Managers prior to the signing of this agreement);

(vii) change in laws: there is introduced into the Parliament of the Commonwealth of Australia or any State or Territory of Australia a law or prospective law, or any new regulation is made under any statute, or a governmental agency (including without limitation ASIC, the Reserve Bank of Australia or APRA) adopts a policy, or there is any announcement that such a law, prospective law or regulation may be introduced or policy may be adopted;

(viii) failure to comply: any member of the Group fails to comply with a provision of its constitution, any statute or regulation or a requirement, order or request, made by or on behalf of ASIC, ASX or any governmental agency;

(ix) prescribed occurrence: a prescribed occurrence as set out in sections 652C(1) and (2) of the Corporations Act occurs;

(x) insolvency event: an insolvency event occurs such that a member of the Group being or stating that it is unable to pay its debts as and when they fall due or failing to comply with a statutory demand or any step being taken towards the appointment of a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other similar official in relation to, or to any property of, a member of the Group, or towards a member of the Group being wound up or disolved or entering into a scheme, moratorium, composition or other arrangement with, or to obtain protection from, its creditors or any class of them or an assignment for the benefit of its creditors or any class of them, or circumstances existing which would permit a presumption of insolvency in relation to a member of the Group under section 459C(2) of the Corporations Act, or anything having a similar effect occurring;

(xi) capital: a member of the Group passes, or takes any steps to pass, a resolution under section 254N or 260B or division 2 of part 2J.1 of the Corporations Act;

(xii) new circumstance: a new circumstance as referred to in section 719(1)(c) of the Corporations Act occurs that is materially adverse from the point of view of an investor;

(xiii) judgment: a judgment is made by a court of competent jurisdiction, or a fine or penalty is imposed by a governmental agency, in an amount equal to or exceeding $20 million against a member of the Group and such judgment, fine or penalty is not set aside or satisfied within 7 days after it is made or imposed;

(xiv) hostilities: there is an outbreak or major escalation of hostilities involving any one or more of Australia, New Zealand, the United States, the United Kingdom, any member of the European Union, Indonesia, China or Japan or the declaration by any of these countries of a national emergency or war, or a terrorist attack is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries elsewhere in the world;

(xv) public statement: a member of the Group makes a public statement in relation to the RPS2, the Offer or the Group without the prior approval of the Joint Lead Managers;

(xvi) default: IAG is in default of any of the terms and conditions of the Offer Management Agreement or breaches any warranty or covenant given or made by it under the Offer Management Agreement;

(xvii) director: a director of a member of the Group:

(A) is charged with an indictable offence relating to any financial or corporate matter or any regulatory body commences any public action against the director in his or her capacity as a director of a member of the Group or announces that it intends to take any such action; or

(B) is disqualified from managing a corporation under sections 206B, 206C, 206D, 206E or 206F of the Corporations Act.

(xviii) misrepresentation: any warranty, representation or statement by any member of the Group in relation to the Offer is or is found to be false or misleading or deceptive;

(xix) information supplied: any information supplied by any member of the Group or on its behalf to the Joint Lead Managers in respect of the Offer of the Group is or is found to be false or misleading or deceptive or likely to mislead or deceive.

If one Joint Lead Manager terminates its obligations under the Offer Management Agreement, the remaining Joint Lead Manager may elect to assume and perform all of the obligations, and will have the benefit of all of the rights, of the terminating Joint Lead Manager under the Offer Management Agreement.

7.8 ◦ ◦ ◦ Consents

Each of the parties referred to as Consenting Parties in this section who are named below has not made any statement in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified in paragraphs (a) and (b) below:

(a) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements or omissions from this Prospectus, other than the reference to its name and a statement or report included in this Prospectus with the consent of that Consenting Party; and

(b) 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.

Consenting Parties

- ASX Perpetual Registrars Limited
- Commonwealth Securities Limited
- Deutsche Bank AG
- KPMG
- KPMG Transaction Services (Australia) Pty Limited
- Mallesons Stephen Jaques
- Standard & Poor's Ratings Services
- UBS Warburg Australia Limited
- UBS Warburg Private Clients Ltd

7.9 ◦ ◦ ◦ Interests of advisers

The following disclosures of interests and fees are made in relation to advisers' roles in connection with IAG and the RPS2.

KPMG have acted as the auditors for IAG and KPMG Transaction Services performed professional services to assist management in its due diligence inquiries on financial matters. IAG estimates that it will pay approximately $200,000 (excluding disbursements and GST) to KPMG Transaction Services. Further amounts may be paid to KPMG Transaction Services in accordance with its normal time-based charges.

Mallesons Stephen Jaques have acted as solicitors to IAG in relation to the Offer and have performed work in relation to preparing the due diligence and verification program, performing due diligence required on legal matters and tax advice. In respect of this work, IAG estimates that it will pay approximately $350,000 (excluding disbursements and GST) to Mallesons Stephen Jaques. Further amounts may be paid to Mallesons Stephen Jaques in accordance with its normal time-based charges.

Deutsche Bank and UBS Warburg have acted as the Joint Lead Managers to the Offer, in respect of which they will receive the fees outlined in section 7.7 above.

7.10 ○○○ Directors' interests

Except as set out below, no Director or proposed Director, nor any firm in which any Director or proposed Director is a partner, has, or has had in the two years before lodgement of this Prospectus with ASIC, any interest in:

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

Except as set out below, no amount (whether in cash or 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, nor any firm in which any Director or proposed Director is a partner, either to induce them to become, or to qualify them as, a Director or otherwise for services provided by them in connection with the formation or promotion of IAG or with the Offer.

The table below sets out the Directors' interests in Ordinary Shares as at the date of this Prospectus. There were no Directors that held any RPS1 as at the date of this Prospectus.

Name	Ordinary Shares
James Strong	116,706
Michael Hawker*	1,180,919
John Astbury	43,735
Maree Callaghan	20,984
Geoffrey Cousins	163,652
Mary Easson	14,637
Dominique Fisher	49,377
Neil Hamilton	44,578
Anne Keating	14,361
Rowan Ross	131,110

* *Michael Hawker holds 1,000,000 Performance Share Rights (PSR) pursuant to IAG's Performance Share Rights plan. PSR are options over unissued Ordinary Shares. These are included in the interests shown above.*

Michael Hawker also holds 300,000 Performance Award Rights (PAR) granted by IAG Share Plan Nominee Pty Limited, the Trustee of the PAR Plan Trust. The trust deed provides that a participant in the PAR Plan has no legal or beneficial interest in Ordinary Shares by virtue of acquiring or holding any PAR.

The exercise of PSR and PAR are both subject to time and performance conditions.

7.11 ◦◦◦ ASX waivers

ASX has granted IAG the following waivers:

- Listing Rule 7.1.4 has been waived to the extent necessary to allow IAG, in calculating the number of the RPS2 it may issue in accordance with Listing Rule 7.1, to notionally convert the RPS2 at the VWAP on the 20 Business Days prior to the date IAG announces its intention to make the issue of the RPS2;
- Listing Rule 7.1 has been waived to the extent necessary to allow IAG to issue Ordinary Shares on the conversion of the RPS2 without seeking Ordinary Shareholder approval; and
- Listing Rule 7.40 has been waived to the effect that hard copies of the Prospectus may be dispatched other than as prescribed in Appendix 7A of the Listing Rules.

Approval has also been granted to IAG to allow RPS2, for a short time following the allotment and quotation of the RPS2, to trade on a deferred settlement trading basis.

7.12 ◦◦◦ ASIC relief

ASIC has granted IAG a declaration under section 741(1) of the Corporations Act to allow IAG to lodge this Prospectus with ASIC without the inclusion of the Dividend Rate, the Margin and the Market Rate and to include those rates in the printed copy of this Prospectus.

7.13 ◦◦◦ Consents to lodgement

Each Director has given, and has not withdrawn, their consent to the lodgement of this Prospectus with ASIC.

James Strong

James Strong
Chairman
Insurance Australia Group Limited

Appendix A: Terms of Issue

References to clauses and paragraphs in this section are to clauses and paragraphs of this Appendix.

1 Face Value

The face value of each reset preference share (RPS2) will be $100 (Face Value).

2 Dividends

2.1 Dividends

(a) Subject to these terms, the Holder on the relevant Record Date of each RPS2 is entitled to receive on each relevant Dividend Payment Date a dividend (Dividend) calculated in accordance with the following formula:

$$\text{Dividend} = \frac{\text{Dividend Rate x Face Value x N}}{365}$$

where:

N is the number of days from (and including) either the Allotment Date or the preceding Dividend Payment Date (whichever is the later) until (but not including) the relevant Dividend Payment Date;

Dividend Rate expressed as a percentage per annum, is calculated in accordance with the following formula:

(Market Rate + Margin) x (1 – T)

where:

Market Rate expressed as a percentage per annum:

(i) for the period to the first Reset Date, the 5 Year Swap Rate on the date the Company announces the Margin determined under the Bookbuild; and

(ii) for the period between succeeding Reset Dates, is as reset by the Company in accordance with clause 4;

Margin expressed as a percentage per annum:

(i) for the period to the first Reset Date, is the rate determined under the Bookbuild (Initial Margin); and

(ii) for the period between succeeding Reset Dates, is as reset by the Company in accordance with clause 4; and

T means the Australian corporate tax rate applicable at the relevant Reset Date, expressed as a decimal, and which for the period to the first Reset Date will be taken to be 0.30.

(b) If on a Dividend Payment Date, the Australian corporate tax rate applicable to the franking account of the Company from which the Dividend will be franked (Ti) differs from the Australian corporate tax rate applicable at the immediately preceding Reset Date (T) the Dividend will be adjusted in accordance with the following formula (rounded to the nearest four decimal places):

$$\text{Dividend x } \frac{(1 - \text{Ti})}{(1 - \text{T})}$$

where:

Dividend is the amount calculated under clause 2.1(a);

Ti is the Australian corporate tax rate applicable to the franking account of the Company from which the Dividend will be franked, expressed as a decimal; and

T means the Australian corporate tax rate applicable at the immediately preceding Reset Date, expressed as a decimal, and which for the period to the first Reset Date will be taken to be 0.30.

(c) If any Dividend is not franked to 100% under Part IIIAA of the Tax Act (or any provisions that revise or replace that Part), the Dividend will be adjusted in accordance with the following formula:

$$\frac{D}{1-[Ti \times (1-F)]}$$

where:

D is the Dividend calculated under clause 2.1(a) and if relevant clause 2.1(b);

Ti has the same meaning as in clause 2.1(b); and

F is the applicable Franking Rate.

2.2 Payment of Dividend

The payment of a Dividend (including an Optional Dividend) is subject to:

(a) the Directors, at their discretion, determining the Dividend to be payable;

(b) the Company having profits available for the payment of a Dividend;

(c) such payment not resulting in the Total Capital Adequacy Ratio or the Tier 1 Capital Ratio of the Group (on a consolidated basis) not complying with APRA's then current capital adequacy guidelines as they are applied to the Group at the time;

(d) except as permitted under clause 2.3 or unless APRA indicates that it has no objection, the amount of the Dividend not exceeding the profits after tax of the Group (on a consolidated basis) for the immediately preceding financial year less the aggregate amount of dividends paid by the Company in the current financial year on the Record Date for the Dividend; and

(e) APRA not otherwise objecting to the payment of the Dividend.

The Directors, at their discretion, may determine Optional Dividends (as defined in clause 2.9(d)) to be payable, subject to this clause 2.2.

2.3 Reinvestment of Dividends

Where the conditions of clause 2.2 are satisfied with the sole exception of clause 2.2(d), the Directors may determine that a Dividend is payable to each Holder and the Directors may determine that the Holders will participate in a DRP in respect of that Dividend and in such event, participation by the Holders in the DRP will be on the terms of that DRP.

2.4 Non-cumulative Dividends

If and to the extent that all or any part of a Dividend is not paid because of the provisions of clause 2.2, the Company has no liability to pay such Dividend and, notwithstanding the Directors' discretion to pay an Optional Dividend under clause 2.9, the Holder has no claim in respect of such non-payment.

2.5 Calculation of Dividends

All calculations of Dividends will be rounded to four decimal places. For the purposes of making any Dividend payment in respect of a Holder's aggregate holding of RPS2, any fraction of a cent will be disregarded.

2.6 ◦ ◦ ◦ Dividend Payment Dates

Subject to this clause 2, Dividends will be payable on the RPS2 in arrears on:

(a) 15 December 2003 and thereafter on each 15 June and 15 December until the RPS2 are converted, redeemed, bought back or cancelled or in the case of a change in the terms of the RPS2 pursuant to clause 4 in accordance with such change; and

(b) the Exchange Date.

2.7 ◦ ◦ ◦ Record Dates

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

An Optional Dividend is only payable to those persons registered as Holders on the Record Date in respect of the Optional Dividend.

2.8 ◦ ◦ ◦ Deductions

The Company may deduct from any Dividend payable to a Holder 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 the Company to the relevant revenue authority and the balance of the amount payable has been paid to the Holder concerned, then the full amount payable to such Holder shall be deemed to have been duly paid and satisfied by the Company.

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

2.9 ◦ ◦ ◦ Restrictions in case of non-payment

If, for any reason, a Dividend has not been paid in full within 20 Business Days after the relevant Dividend Payment Date, the Company must not without approval of a special resolution passed at a separate meeting of Holders:

(a) declare or pay a dividend or make any distribution on any share capital over which the RPS2 rank in priority for participation in profits; or

(b) redeem, reduce, cancel or acquire for any consideration any share capital of the Company (other than RPS2 or share capital ranking equally with or in priority to RPS2);

unless:

(c) two consecutive Dividends stated to be payable on the RPS2 thereafter have been paid in full (or an equivalent amount of Dividends if the frequency of payment is other than semi-annual); or

(d) an optional dividend (Optional Dividend) has been paid to the Holders equal to the unpaid amount (if any) of the two immediately preceding Dividends prior to the date of payment of the Optional Dividend (or equivalent Dividends if the frequency of payment is other than semi-annual); or

(e) all RPS2 have been converted, redeemed, bought back or cancelled.

3 Exchange

3.1 ◦ ◦ ◦ Exchange by the Holder

(a) Holders may deliver:

(i) a Holder Exchange Notice to the Company no later than 35 Business Days prior to a Reset Date in respect of some or all of their RPS2; or

(ii) a Holder (Event) Exchange Notice to the Company pursuant to clause 3.2 in respect of all (but not some only) of their RPS2.

(b) Once a Holder has given an Exchange Notice under clause 3.1(a) that Holder must not deal with, transfer, dispose of or otherwise encumber the RPS2 the subject of the Exchange Notice.

(c) On receipt of a valid Exchange Notice delivered by a Holder under clause 3.1(a) the Company must, at its option do one of the following in relation to the RPS2 the subject of the Exchange Notice:

  (i) convert the RPS2 into Ordinary Shares in accordance with clauses 3.5 and 3.6; or

  (ii) procure the acquisition of the RPS2 by a third party for their Face Value and send the proceeds to the Holder on the relevant Exchange Date; or

  (iii) redeem, buy-back or cancel the RPS2 for their Face Value on the relevant Exchange Date and send the proceeds to the Holder on the relevant Exchange Date.

  The Company may only apply the mechanism in clause 3.1(c)(iii) if APRA has given its prior approval to such mechanism being applied.

  No later than 21 Business Days prior to the relevant Exchange Date the Company must give notice to Holders who have delivered an Exchange Notice of the RPS2 of which mechanism of Exchange referred to in this clause 3.1(c) it has chosen.

  If the Company does not notify the relevant Holders in accordance with this clause, then clause 3.1(c)(i) will apply.

(d) The form of Holder Exchange Notice and Holder (Event) Exchange Notice which may be used by Holders under clause 3.1 will be made available by the Company upon request.

(e) If a Holder delivers an Exchange Notice in accordance with clause 3.1(a) the Exchange Date is:

  (i) if the Holder Exchange Notice is delivered pursuant to clause 3.1(a)(i), the Reset Date immediately following the delivery of the Holder Exchange Notice; or

  (ii) if the Holder (Event) Exchange Notice is delivered pursuant to clause 3.1(a)(ii), the last Business Day of the month following the month in which the Company receives the Holder (Event) Exchange Notice unless the Company determines an earlier Exchange Date having regard to the best interests of the Holders (collectively) and the relevant event.

3.2 Trigger Event

(a) If a Trigger Event occurs, a Holder may deliver a Holder (Event) Exchange Notice to the Company in respect of all (but not some only) of their RPS2 at any time after the Trigger Event occurs but no later than 35 Business Days after any publication of a notice under clause 3.2(c).

(b) A Trigger Event means the occurrence of any of the following events:

  (i) a Dividend is not paid in full within 20 Business Days after a Dividend Payment Date excluding where non-payment is due to one or more of the conditions in clause 2.2 not being satisfied;

  (ii) the Company resolves in general meeting to be wound up;

  (iii) a provisional liquidator is appointed to the Company;

  (iv) a court makes an order to wind-up the Company (other than to effect a solvent re-construction);

  (v) an administrator of the Company is appointed under sections 436A, 436B or 436C of the Corporations Act;

  (vi) the Company executes a deed of company arrangement;

  (vii) a takeover bid is made to acquire all or some of the Ordinary Shares and the offer is, or becomes, unconditional and:

    (A) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or

    (B) the Directors issue a statement recommending acceptance of the offer;

  (viii) a court approves a scheme of arrangement which, when implemented, will result in a person other than the Company having a relevant interest in more than 50% of the Ordinary Shares;

  (ix) the Ordinary Shares or the RPS2 are suspended from trading on ASX for more than 20 successive Business Days; or

  (x) the Company announces to ASX an intention to sell all or substantially all of its business undertaking or assets (other than to effect a solvent re-construction).

(c) The Company must notify Holders of the occurrence of a Trigger Event by publishing a notice in 'The Australian' or a daily financial newspaper in Australia which specifies the particular Trigger Event as soon as practicable after becoming aware of the applicable event.

3.3 ◦ ◦ ◦ Exchange by the Company

(a) The Company may serve on Holders:
   (i) an Issuer Exchange Notice at least 35 Business Days (but no more than 6 months) before a Reset Date in respect of all or some of their RPS2;
   (ii) an Issuer (Event) Exchange Notice following the occurrence of a Tax Event or Regulatory Event in respect of all (but not some only) of their RPS2; or
   (iii) an Issuer (Event) Exchange Notice no later than 35 Business Days after the Company has published a notice under clause 3.2(c) following a takeover or scheme of arrangement as described in clauses 3.2(b)(vii) and 3.2(b)(viii) in respect of all (but not some only) of their RPS2.

(b) If the Company serves an Exchange Notice, the Company must include in that notice which of the following it intends to do in respect of the RPS2 the subject of the notice:
   (i) convert the RPS2 into Ordinary Shares in accordance with clauses 3.5 and 3.6; or
   (ii) redeem, buy-back or cancel the RPS2 for their Face Value on the relevant Exchange Date and send the proceeds to the Holder on the relevant Exchange Date.

   The Company may only apply the mechanism in clause 3.3(b)(ii) if APRA has given its prior approval to such mechanism being applied.

(c) The Company cannot serve an Issuer Exchange Notice to convert only some RPS2 if, as at the date of the Issuer Exchange Notice, that conversion would result in there being unconverted RPS2 with an aggregate Face Value of less than $100 million. In a partial conversion, the Company must endeavour to treat Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels and other logistical considerations.

(d) The Company is not restricted from giving a notice under clause 3.3(a) merely because a Holder has given a notice under clause 3.1(a). If the Company serves an Exchange Notice after the Holder has served an Exchange Notice under clause 3.1(a), the Company's notice will prevail if there is any inconsistency.

(e) If the Company serves an Exchange Notice in accordance with clause 3.3(a) the Exchange Date is:
   (i) for an Issuer Exchange Notice, the Reset Date immediately following the date the Issuer Exchange Notice was served; or
   (ii) for an Issuer (Event) Exchange Notice, the last Business Day of the month following the month in which the Issuer (Event) Exchange Notice was served by the Company unless the Company determines an earlier Exchange Date having regard to the best interests of the Holders (collectively) and the relevant event.

3.4 ◦ ◦ ◦ Exchange Notices are irrevocable

An Issuer Exchange Notice or Issuer (Event) Exchange Notice given by the Company under clause 3.3(a) or a Holder Exchange Notice or Holder (Event) Exchange Notice delivered by a Holder under clause 3.1(a) is irrevocable.

3.5 ◦ ◦ ◦ Meaning of conversion

Each RPS2, on any conversion, confers all of the rights attaching to one fully paid Ordinary Share but these rights do not take effect until 5.00pm Sydney time on the Exchange Date. At that time:

(a) all other rights and restrictions conferred on the RPS2 under these Terms of Issue will no longer have any effect (except for any rights relating to a Dividend payable on or before the Exchange Date which will subsist); and

(b) each RPS2 will rank equally with all other fully paid Ordinary Shares then on issue and the Company will issue a statement that the Holder of those shares holds a share so ranking.

The taking effect of the rights of a RPS2 under this clause 3.5 and any allotment of additional Ordinary Shares under clause 3.6 is, for the purposes of these Terms of Issue, together termed 'conversion'. Conversion does not constitute cancellation, redemption or termination of a RPS2 or an issue, allotment or creation of a new share (other than any additional Ordinary Shares allotted under clause 3.6).

3.6 ◦◦◦ Conversion and additional Ordinary Shares

If:

(a) Holders issue an Exchange Notice under clause 3.1(a) and the Company chooses the mechanism of Exchange described in clause 3.1(c)(i); or

(b) the Company issues an Exchange Notice in accordance with clause 3.3(a) and chooses the mechanism of Exchange described in clause 3.3(b)(i), then each RPS2 the subject of an Exchange Notice will convert on the Exchange Date into one Ordinary Share and upon conversion, each Holder will be allotted an additional number of Ordinary Shares determined in accordance with the following formula (provided that where the total number of additional Ordinary Shares to be allotted to that Holder in respect of the total number of the RPS2 being converted at that time includes a fraction, that fraction will be disregarded):

AS = N x (CR – 1)

where:

AS means a whole number of additional Ordinary Shares which is equal to or greater than zero;

N is the number of the RPS2 held by the Holder at the Exchange Date the subject of the Exchange Notice;

CR means:

(i) if conversion is made under clause 3.1(a)(i) an amount calculated by dividing Face Value by **RP**; or

(ii) in all other circumstances, an amount calculated by dividing Face Value by **CRP**,

subject in both cases to **CR** being no less than 1, and where:

RP means, subject to clause 3.7, the VWAP during the Reference Period; and

CRP means **RP** multiplied by 97.5%.

3.7 ◦◦◦ Adjustments to VWAP

For the purposes of calculating VWAP in clause 3.6 (the definition of **RP**):

(a) where, on some or all of the Business Days in the Reference Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and the RPS2 will convert into Ordinary Shares after the date those Ordinary Shares no longer carry that dividend, distribution or entitlement (Ex Date), then the VWAP on the Business Days on which those shares have been quoted cum dividend, cum distribution or cum 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 distribution including, if the dividend or distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or distribution who is a natural person resident in Australia under the Tax Act;

(ii) (in the case of an entitlement that is not a dividend or other distribution under clause 3.7(a)(i) and which is traded on ASX on any of those Business Days) the volume weighted average price of all such entitlements sold on ASX during the Reference Period on the Business Days on which those entitlements were traded; or

(iii) (in the case of an entitlement that is not a dividend or other distribution under clause 3.7(a)(i) and which is not traded on ASX during the Reference Period) the value of the entitlement as reasonably determined by the Directors.

(b) where, on some or all of the Business Days in the Reference Period, Ordinary Shares have been quoted ex dividend, ex distribution or ex entitlement, and the RPS2 will convert into Ordinary Shares which would be entitled to receive the relevant dividend, distribution or entitlement, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend, ex distribution or ex entitlement shall be increased by the Cum Value.

(c) where the Ordinary Shares are reconstructed, consolidated, divided or reclassified into a lesser or greater number of securities during a Reference Period, the VWAP shall be adjusted by the Directors as they consider appropriate. Any adjustment made by the Directors will constitute an alteration to these Terms of Issue and will be binding on all Holders and these Terms of Issue will be construed accordingly. Any such adjustment will promptly be notified to all Holders.

4 Reset of terms

4.1 The Company may vary terms

Subject to clause 4.2, the Company may, prior to any Reset Date, make changes to any or all the following terms:

(a) the next Reset Date (which must be at least 12 months after the immediately preceding Reset Date);

(b) the Market Rate;

(c) the Margin; and

(d) the frequency and timing of the Dividend Payment Dates.

These new terms will apply from the day after the relevant Reset Date until and including the next Reset Date. Any change made by the Company under this clause 4.1 must be notified in accordance with clause 4.3 (Reset Notice).

4.2 APRA restrictions on variation of terms

Unless otherwise approved by APRA, any variation in the terms as specified in the Reset Notice will be subject to the following:

(a) the next Reset Date must be five years from the immediately preceding Reset Date;

(b) where a Reset Date occurs on a day prior to the end of the Initial Period, the Company cannot, in respect of that Reset Date, increase the Margin from the Initial Margin but the Company may decrease the Margin provided that the decreased Margin does not exceed the rate calculated in accordance with the formula set out in paragraph (c)(iii) below; and

(c) any variation in the Market Rate or Margin as specified in the Reset Notice will be calculated in accordance with the following formula:

Dividend Rate = (Market Rate + Margin) x (1 - T)

where:

Market Rate is the rate expressed as a percentage per annum calculated as the average of the mid-point of the quoted average swap reference rates for the period between the relevant Reset Dates at three predetermined times on Reuters page CMBE (or any page which replaces that page) on the relevant Reset Date;

Margin expressed as a percentage per annum, does not exceed the Initial Margin for the Initial Period and after the Initial Period is a rate determined by the Company provided that it does not exceed the lesser of:

(i) the Margin that applied on the previous Reset Date plus 100 basis points;

(ii) the Initial Margin plus 100 basis points; and

(iii) **the Initial Margin x** $\dfrac{\textbf{(FR – FRG)}}{\textbf{(FP – FPG)}}$

where:

FR is the fair market value yield curve on Bloomberg Page FMCS for 'A' rated five year AUD securities (or any page which replaces that page) on the relevant Reset Notice Date;

FP is the fair market value yield curve on Bloomberg Page FMCS for 'A' rated five year AUD securities (or any page which replaces that page) on the Allotment Date;

FRG is the fair market value yield curve on Bloomberg Page FMCS for Australian government five year AUD securities (or any page which replaces that page) on the relevant Reset Notice Date;

FPG is the fair market value yield curve on Bloomberg Page FMCS for Australian government AUD securities (or any page which replaces that page) on the Allotment Date; and

T has the meaning given to that term in clause 2.1(a).

For the avoidance of doubt, APRA may from time to time waive any or all of the restrictions in this clause 4.2, in which event the Company may vary the terms as contemplated under clause 4.1.

4.3 ○ ○ ○ Notification

(a) For a change made under clause 4.1 to be effective, the Reset Notice must be sent to all Holders no later than 50 Business Days immediately preceding the relevant Reset Date (Reset Notice Date).

(b) If the Company does not send a Reset Notice, the terms applying as at the relevant Reset Date will continue and the next Reset Date will be such that the period to the next Reset Date is the same as the period that has passed from the immediately preceding Reset Date until the relevant Reset Date.

5 RPS2 general rights

5.1 ○ ○ ○ Ranking

RPS2 rank equally amongst themselves and with RPS1 in all respects and are subordinated to all depositors and creditors of the Company. The issue of any other preference shares which rank in priority to the RPS2 in respect of dividends or return of capital on a winding up constitutes an alteration of the rights attached to the RPS2.

The Company reserves the right to issue further RPS2 or preference shares which rank equally with or behind existing RPS2, whether in respect of dividends, return of capital on a winding up or otherwise. Such an issue does not constitute a variation or cancellation of the rights attached to the then existing RPS2.

5.2 ○ ○ ○ Preferential dividend

Until conversion, the RPS2 rank in priority to Ordinary Shares for the payment of dividends.

5.3 ○ ○ ○ No set off

Any amount due to a Holder in respect of the RPS2 may not be set off against any claims by the Company on the Holder.

5.4 ○ ○ ○ Return of capital

Until conversion, if there is a return of capital on a winding up of the Company, Holders will be entitled to receive out of the assets of the Company available for distribution to holders of shares, in respect of each RPS2 held, a cash payment (Liquidation Sum) equal to the sum of:

(a) the amount of any Dividend due but unpaid; and
(b) the Face Value, before any return of capital is made to holders of Ordinary Shares or any other class of shares ranking behind the RPS2.

RPS2 do not confer on their Holders any right to participate in profits or property except as set out in these Terms of Issue.

5.5 Shortfall on winding up

If, upon a return of capital on a winding up of the Company, there are insufficient funds to pay in full the amounts referred to in clause 5.4 and the amounts payable in respect of any other shares in the Company ranking as to such distribution equally with the RPS2 on a winding up of the Company, Holders and the holders of any such other shares will share in any distribution of assets of the Company in proportion to the amounts to which they respectively are entitled.

5.6 No participation in surplus assets

The RPS2 do not confer on their Holders any further right to participate in the surplus assets of the Company on a winding up beyond payment of the Liquidation Sum.

5.7 Restrictions on other issues

Until the date on which all RPS2 have been converted, the Company must not, without approval of a special resolution passed at a separate meeting of Holders issue shares ranking in priority to the RPS2 or permit the conversion of any existing shares to shares ranking equally with or in priority to the RPS2, but the Directors are at all times authorised to issue further RPS2 or preference shares ranking equally with or behind any existing RPS2.

5.8 Takeovers and schemes of arrangement

If a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors, or the Directors recommend a scheme of arrangement in respect of the Ordinary Shares of the Company which will result in a person other than the Company having a relevant interest in more than 50% of the Ordinary Shares, the Directors will use reasonable endeavours to procure that equivalent takeover offers are made to Holders or that they are entitled to participate in the scheme of arrangement or a similar transaction.

5.9 Participation in new issues

Until the RPS2 are converted they will confer no rights to subscribe for new securities in the Company or to participate in any bonus issues.

6 Voting rights

Holders will be entitled to receive notice of any general meeting of the Company and a copy of every circular and like document sent out by the Company to holders of Ordinary Shares and to attend and speak at general meetings of the Company.

Holders will not be entitled to vote at any general meeting of the Company except in the following circumstances:

(a) on a proposal:
  (i) to reduce the share capital of the Company;
  (ii) that affects rights attached to the RPS2;
  (iii) to wind up the Company; or
  (iv) for the disposal of the whole of the property, business and undertaking of the Company;
(b) on a resolution to approve the terms of a buy-back agreement;
(c) during a period in which a Dividend or part of a Dividend on the RPS2 is in arrears; or

(d) during the winding up of the Company.

In each case, Holders shall have the same right to vote as a holder of Ordinary Shares (as if immediately prior to the meeting the RPS2 had converted into the number of Ordinary Shares provided for in clause 3.6 as if the Record Date is the deadline for receipt of instruments of proxy under article 10.15 of the Company's constitution for the relevant meeting and the Reference Period is the period ending on that date).

7 Listing

The Company 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 the RPS2 on ASX and of all converted RPS2 and additional Ordinary Shares issued under clause 3.6 on each of the stock exchanges on which the other Ordinary Shares of the Company are listed on the date of conversion.

8 Amendments to the Terms of Issue

Subject to complying with all applicable laws and with APRA's prior approval, the Company may without the authority, assent or approval of Holders amend or add to these Terms of Issue if such amendment or addition is, in the opinion of the Company:

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

(b) made to correct a manifest error; or

(c) not likely (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) to be materially prejudicial to the interests of the Holders of the RPS2.

9 Interpretation

(a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these Terms of Issue, the terms of the special resolution of the Company passed on 22 June 2000 regarding non-cumulative preference shares and the Company's constitution, then, to the maximum extent permitted by law, the provisions of these Terms of Issue will prevail.

(b) Unless otherwise specified, the Directors may exercise all powers of the Company under these Terms of Issue as are not, by the Corporations Act or by the Company's constitution, required to be exercised by the Company in general meeting.

(c) Notices may be given by the Company to a Holder in the manner prescribed by the Company's constitution for the giving of notices to members of the Company and the relevant provisions of the Company's constitution apply with all necessary modification to notices to Holders.

(d) Unless otherwise specified, a reference to a clause is a reference to a clause of these Terms of Issue.

(e) If a calculation is required under these Terms of Issue, unless the contrary intention is expressed, the calculation will be rounded to four decimal places.

(f) Definitions and interpretation under the Company's constitution will also apply to these Terms of Issue subject to clause 9(a).

(g) Any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply to the Company only if the Company is an entity or the holding company of an entity subject to regulation and supervision by APRA at the relevant time.

(h) The terms 'takeover bid', 'relevant interest' and 'scheme of arrangement' when used in these Terms of Issue have the meaning given in the Corporations Act.

(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 Terms of Issue 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) The following expressions shall have the following meanings:

5 Year Swap Rate means the rate expressed as a percentage per annum calculated as the average of the mid-point of the quoted average 5 year swap reference rates at 3 predetermined times on Reuters page CMBE (or any page which replaces that page) on the relevant date.

Allotment Date means the date on which the RPS2 are issued.

APRA means the Australian Prudential Regulation Authority.

ASX means Australian Stock Exchange Limited (ABN 90 008 624 691).

ASX Business Rules means the business rules of ASX from time to time with any modification or waivers in their application to the Company, which ASX may grant.

ASX Listing Rules means the listing rules of ASX from time to time with any modification or waivers in their application to the Company, which ASX may grant.

AUD means Australian dollars.

Bookbuild means the process conducted by the Company prior to the opening of the Offer whereby certain Australian institutional investors lodge bids for the RPS2 and, on the basis of those bids, the Company determines the Margin and announces its determination prior to the opening of the Offer.

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

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

Corporations Act means Corporations Act 2001 (Cwlth).

Director means a director of the Company.

Dividend has the meaning given in clause 2.1.

Dividend Payment Date means each date on which a Dividend is payable in accordance with clause 2.6, including as varied under clause 4, whether or not a Dividend is paid on that date.

Dividend Rate has the meaning given in clause 2.1.

DRP means a dividend reinvestment plan that may be adopted by the Company (and as may be amended from time to time) in which Holders are eligible to participate, under which members of the Company have the opportunity to reinvest a dividend or other similar distribution in additional securities of the Company.

Exchange means:

(a) in the case of the Holder issuing an Exchange Notice to the Company under clause 3.1(a), conversion of the RPS2 into Ordinary Shares in accordance with clause 3.6, the acquisition of the RPS2 by a third party at their Face Value or the redemption, buy-back or cancellation of the RPS2 for their Face Value, as determined by the Company in accordance with clause 3.1(c); or

(b) in the case of the Company issuing an Exchange Notice to the Holder under clause 3.3(a), conversion of the RPS2 into Ordinary Shares in accordance with clause 3.6, or the redemption, buy-back or cancellation of the RPS2 for their Face Value, as determined by the Company in accordance with clause 3.3(b).

Exchange Date means:

(a) in the case of a notice given by a Holder under clause 3.1(a), has the meaning given in clause 3.1(e); and

(b) in the case of a notice served on a Holder by the Company under clause 3.3 has the meaning given in clause 3.3(e).

Exchange Notice means a notice given by a Holder to the Company under clause 3.1(a) or served on a Holder by the Company under clause 3.3(a).

Face Value has the meaning given in clause 1.

Franking Rate, in relation to a Dividend, means the franking percentage (within the meaning of Part IIIAA of the Tax Act or any part that replaces or revises that part) of the Dividend, expressed as a decimal to four decimal places.

Group means the Company and its controlled entities.

Holder means a person whose name is for the time being registered in the Register as the holder of a RPS2.

Holder (Event) Exchange Notice means a notice given by a Holder to the Company under clause 3.1(a)(ii).

Holder Exchange Notice means a notice given by a Holder to the Company under clause 3.1(a)(i).

Initial Margin has the meaning given in clause 2.1(a).

Initial Period means the period from the Allotment Date until 15 June 2013.

Issuer (Event) Exchange Notice means a notice given by the Company to a Holder under clauses 3.3(a)(ii) or 3.3(a)(iii).

Issuer Exchange Notice means a notice given by the Company to a Holder under clause 3.3(a)(i).

Liquidation Sum has the meaning given in clause 5.4.

Margin has the meaning given in clause 2.1(a).

Market Rate has the meaning given in clause 2.1(a).

Offer means the invitation made pursuant to the prospectus issued by the Company for persons to subscribe for RPS2.

Optional Dividend has the meaning given in clause 2.9(d).

Ordinary Share means an ordinary fully paid share in the capital of the Company.

Record Date means, for a payment of:

(a) a Dividend, the date which is 11 Business Days before the Dividend Payment Date for that Dividend; and

(b) an Optional Dividend, the date prior to its payment that is determined by the Company, or such other date as may be required by ASX from time to time.

Reference Period means in determining 'RP' in clause 3.6, the period of 20 Business Days on which trading in the Ordinary Shares took place immediately preceding:

(a) if the Company receives a Holder (Event) Exchange Notice under clause 3.2(a) due to the Trigger Event set out in clause 3.2(b)(ix), the date of the suspension of the Ordinary Shares or the RPS2 from trading on ASX; or

(b) in all other cases, the Exchange Date.

Register means the register of the RPS2 maintained by the Company and includes any sub-register established and maintained under the Clearing House Electronic Sub-Register System (as defined in the ASX Listing Rules).

Regulatory Event means:

(a) the receipt by the Company 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 affecting securities laws of Australia or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations which amendment, clarification or change is effective or pronouncement, action or decision is announced on or after Allotment Date, additional requirements would be imposed on the Company which the Directors determine at their sole discretion, to be unacceptable; or

(b) the determination by the Directors that the Company is not or will not be entitled to treat all of the RPS2 as Tier 1 Capital.

Reset Date is 15 June 2008 for the first Reset Date and thereafter the date as specified by the Company in a Reset Notice issued under clause 4.3.

Reset Notice has the meaning given in clause 4.1.

Reset Notice Date has the meaning given in clause 4.3(a).

RPS1 means the reset preference shares issued by the Company pursuant to the terms of issue set out in Appendix A of the prospectus dated 6 May 2002.

RPS2 means the reset preference shares issued by the Company pursuant to these Terms of Issue, described in clause 1.

Special Resolution means a resolution passed at a meeting of Holders by a majority of at least 75% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution.

Tax Act means:

(a) the Income Tax Assessment Act 1936 or the Income Tax Assessment Act 1997 as the case may be, as amended, and a reference to any section of the Income Tax Assessment Act 1936 includes a reference to that section as rewritten in the Income Tax Assessment Act 1997; and

(b) any other Act setting the rate of income tax payable and any regulation promulgated thereunder.

Tax Event means the receipt by the Company 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, the pronouncement that provides for a position with respect to an Administrative Action 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 such pronouncement or decision is announced on or after the Allotment Date, there is more than an insubstantial risk that the Company would be exposed to more than a de minimus increase in its costs (having regard to any tax deductions available to the Company in connection with the payment of Dividends) in relation to the RPS2 as a result of increased taxes, duties or other governmental charges or civil liabilities.

Terms of Issue means these terms of issue for RPS2.

Tier 1 Capital means the core capital of the Group as defined by APRA.

Tier 1 Capital Ratio means at any time the ratio so described by APRA.

Total Capital Adequacy Ratio means at any time the ratio so described by APRA.

Trigger Event has the meaning given in clause 3.2(b).

VWAP is subject to any adjustments under clause 3.7, the average of the daily volume weighted average sale prices (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 transaction defined in the ASX Business Rules as 'special', crossings prior to the commencement of normal trading, crossings during the closing phase and the after hours adjust phase nor any overseas trades or trades pursuant to the exercise of options over Ordinary Shares or any overnight crossings.

Appendix B: Glossary

The following is a glossary of the terms used in this Prospectus including terms commonly used in the insurance industry. There is also a list of defined terms in clause 9 of the Terms of Issue. Defined terms in this Glossary and in clause 9 of the Terms of Issue are used throughout this Prospectus and the accompanying Application Form.

ABN	Australian business number
Allotment Date*	the date the RPS2 are issued to Holders, expected to be 20 June 2003
Application	a valid application made on the conditions set out in this Prospectus by using an Application Form to apply for a specified number of the RPS2
Application Form	each form accompanying this Prospectus, including electronic Application Forms made available by IAG, the Joint Lead or Participating Brokers, upon which an Offer to subscribe for RPS2 may be made
Acquisition	the Group's acquisition of the Australian and New Zealand general insurance operations of Aviva plc, being CGU and NZI
APRA	Australian Prudential Regulation Authority (ABN 79 635 582 658)
ASIC	the Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited (ABN 98 008 624 691)
Board	all or some of the Directors acting as a board
Ceded	to transfer liability in connection with a risk, or portion of it, from the original insurer to the reinsurer
CGT	capital gains tax
CGU	CGU Insurance Australia Limited (ABN 62 004 478 960) and its controlled entities
CHESS	Clearing House Electronic Subregister System operated by an associate of ASX
Claims Handling Expenses	the expenses of settling claims, including legal and other fees and general expenses
Closing Date*	the last day on which Application Forms will be accepted, expected to be 19 June 2003
Co Managers	Commonwealth Securities Limited (ABN 60 067 254 399) and UBS Warburg Private Clients Ltd (ABN 50 005 311 937)
Combined Ratio	represents the total of Net Claims Expense incurred and Underwriting Expenses, as a percentage of Net Earned Premium. It is equivalent to the sum of the Loss Ratio and Expense Ratio
CTP	compulsory third party insurance
Deutsche Bank	Deutsche Bank AG (ABN 13 064 165 162)
Director	a director of IAG
EPS	earnings per Ordinary Share

Expense Ratio	the ratio of Underwriting Expenses to Net Earned Premium
Face Value	the price payable for each of the RPS2 under the Offer, being $100
Gross Written Premium or GWP	the total premiums relating to insurance policies underwritten by an insurer or reinsurer during a specified period, before deduction of Reinsurance premiums
Group	IAG and its controlled entities
GST	goods and services tax
IAG or the Company	Insurance Australia Group Limited (ABN 60 090 739 923), formerly NRMA Insurance Group Limited
Insurance Australia Group	IAG and its controlled entities
Insurance Margin	the ratio of Insurance Profit to Net Earned Premium
Insurance Profit	Underwriting Result plus investment income on Technical Reserves
IFRS	International Financial Reporting Standards
Joint Lead Managers	Deutsche Bank and UBS Warburg
KPMG Transaction Services	KPMG Transaction Services (Australia) Pty Limited (ABN 65 003 891 718)
Listing Rules	the listing rules of ASX
Long-tail	classes of insurance (such as CTP and workers' compensation insurance) with an average period between the time when premiums are received and final settlement of claims which is generally greater than 12 months
Loss Ratio	the ratio of Net Claims Expense to Net Earned Premium
MCR	minimum capital requirement as defined by APRA
Net Claims Expense	insurance claim losses incurred plus Claims Handling Expenses minus Recoveries
Net Earned Premium	Gross Written Premium less premiums Ceded to reinsurers plus/minus movements in Unearned Premium
NOHC	non-operating holding company as defined by APRA
NZI	Belves Investments Limited and its controlled entities (including New Zealand Insurance Limited)
Offer	the invitation made by IAG pursuant to this Prospectus for investors to apply for RPS2
Offer Management Agreement	the agreement to be entered into between IAG and the Joint Lead Managers subject to and on the terms summarised in section 7.7
Offer Period*	the period from the Opening Date to the Closing Date
Ordinary Share	an ordinary fully paid share in the capital of IAG
Ordinary Shareholder	holder of Ordinary Shares
Opening Date	the day the Offer opens, expected to be 28 May 2003
Participating Broker	the Joint Lead Managers and Co Managers and any participating organisation of ASX selected by the Joint Lead Managers

Probability of Sufficiency	is the estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. APRA's new prudential standard GPS 210 requires general insurers to maintain a minimum probability of sufficiency of claims reserves of 75% for the purpose of assessing solvency under the Insurance Act 1973 (as amended)
Prospectus	this prospectus relating to the Offer lodged with ASIC on 20 May 2003
RACV	Royal Automobile Club of Victoria (RACV) Limited (ACN 004 060 833)
Recoveries	the amount of claims recovered from reinsurers, third parties or salvage
Reinsurance	the acceptance by one or more reinsurers of a portion of risk underwritten by an insurer that has directly written the coverage in return for a portion of the premium related thereto. The legal rights of the insured are generally not affected by the Reinsurance transaction, and the insurer issuing the insurance policy remains liable to the insured for payment of claims
Reset Date	15 June 2008 or as reset by IAG in accordance with the Terms of Issue
RPS1	reset preference shares (ASX code: IAGPA) issued by IAG pursuant to the terms of issue set out in Appendix A of the Prospectus dated 6 May 2002
RPS2	reset preference shares issued by IAG pursuant to the Terms of Issue set out in Appendix A of this Prospectus
S&P	Standard & Poor's Ratings Services
Securities Act	U.S. Securities Act of 1933, as amended
Share Purchase Plan	the offer by IAG to each existing Ordinary Shareholder on 21 October 2002 to acquire up to $5,000 of Ordinary Shares to raise at least $380 million in aggregate to partially fund the Acquisition
Short-tail	classes of insurance (such as motor, home, small-to-medium enterprise commercial and health) with an average period between the time when premiums are received and final settlement of claims which is generally less than 12 months
Technical Reserves	the investments held to back provision for outstanding claims (including incurred but not reported and incurred but not enough recorded) and Unearned Premium, net of Recoveries and premium debtors
Terms of Issue	the terms of issue of the RPS2 set out in Appendix A of this Prospectus
TFN	tax file number
UBS Warburg	UBS Warburg Australia Limited (ABN 40 008 582 705)
Underwriting	the process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk
Underwriting Expense	those expenses incurred as a result of Underwriting activities, including risk assessment, commission expenses and other acquisition expenses
Underwriting profit/(loss)	see Underwriting Result
Underwriting Result	Net Earned Premium less Net Claims Expense less Underwriting Expense
Unearned Premium	the portion of premium written applicable to the unexpired portion of a policy

* IAG has the right, subject to agreement with the Joint Lead Managers, to close the Offer early or to extend the Closing Date for the Offer without notice.

Corporate directory

Registered and Head Office

Insurance Australia Group Limited
Level 21, 388 George Street
Sydney NSW 2000

Joint Lead Managers

Deutsche Bank AG
Level 18, Grosvenor Place
225 George Street
Sydney NSW 2000

1800 333 225

UBS Warburg Australia Limited
Level 25, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

1800 242 020

Co Managers

Commonwealth Securities Limited
Level 6, 120 Pitt Street
Sydney NSW 1155

www.commsec.com.au
13 15 19

UBS Warburg Private Clients Ltd
Level 27, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

1800 242 020

Legal and Tax Advisers to IAG

Mallesons Stephen Jaques
Level 60, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Auditors to IAG

KPMG
KPMG Centre
45 Clarence Street
Sydney NSW 2000

Share Registry

ASX Perpetual Registrars Limited
Level 8
580 George Street
Sydney NSW 2000

IAG RPS2 Information Line

1300 666 635

RPS2

RPS2

RPS2

RPS2

RPS2

RPS2

RPS2

RPS2

Insurance Australia Group

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923

20 May 2003

Insurance Australia Group Limited
ABN 60 090 739 923
388 George Street
Sydney NSW 2000
iag.com.au

MEDIA RELEASE

Insurance Australia Group announces new reset preference share offer

Insurance Australia Group Limited today lodged a prospectus for a second offer of up to $200 million of reset preference shares, to be known as RPS2.

Insurance Australia Group Chief Executive Mr Michael Hawker said the proposed issue of RPS2 forms part of the Group's ongoing capital management program and that the funds raised by this hybrid equity issue will be used to refinance existing senior debt obligations.

"Refinancing a portion of our senior debt with hybrid equity was part of the funding program announced in October 2002 for the acquisition of CGU and NZI," Mr Hawker said.

"The objective of our funding arrangements was to maintain the Group's capital strength at a level commensurate with a 'AA' rating and this proposed issue moves the Group closer to its target capital mix of 68% equity, 20% debt and 12% hybrid equity."

Standard & Poor's has assigned an Issue Credit Rating of 'A-' for the RPS2 offer, consistent with the Group's existing issue of $350 million of reset preference shares (RPS1). The Group's Insurer Financial Strength Credit Ratings, which are all in the very strong 'AA' category, remain unchanged.

"The proposed RPS2 are very similar in nature to the RPS1 (ASX: IAGPA) issued in June 2002," Mr Hawker said.

Key details of the RPS2 offer are:
- up to two million RPS2 with a face value of $100 each;
- a preferred, non-cumulative dividend (expected to be fully franked) at a fixed rate until 15 June 2008, at which date the dividend rate may be reset; and
- a minimum application amount of $10,000.

It is intended that the RPS2 dividend rate will be announced on 23 May 2003 following a bookbuild conducted on 21 and 22 May 2003 to set the margin (which is used in calculating the dividend rate).

…2/

Media Relations	
Name	Suzanne Mercer
Telephone	(02) 9292 9426
Mobile	0413 946 706

Investor Relations	
Name	Anne O'Driscoll
Telephone	(02) 9292 3169
Mobile	0411 012 675

Any investor wishing to acquire RPS2 will need to complete and return the application form attached to or accompanying the prospectus during the offer period, which is scheduled to open on Wednesday 28 May 2003 and close on Thursday 19 June 2003. Insurance Australia Group reserves the right to close the offer earlier so applicants are encouraged to lodge their forms as soon as possible after the offer opens.

The joint lead managers to the RPS2 offer are Deutsche Bank AG and UBS Warburg Australia Limited. The co-managers are Commonwealth Securities Limited and UBS Warburg Private Clients Ltd.

Full details of the RPS2 offer are contained in the prospectus that will be available from:
- Commonwealth Securities Limited (13 15 19 or www.commsec.com.au);
- Deutsche Bank AG (1800 333 225);
- UBS Warburg Private Clients Ltd (1800 242 020);
- the IAG web site on www.iag.com.au/rps2; or
- by calling the IAG RPS2 Information Line on 1300 666 635.

The key dates for the RPS2 offer, all of which are indicative only, are as follows:

• Bookbuild for RPS2	21 and 22 May 2003
• Margin and dividend rate announced	23 May 2003
• Offer period (noting that the offer may be closed earlier or extended)	28 May to 19 June 2003
• Allotment of RPS2	20 June 2003
• RPS2 commence trading on ASX on a deferred settlement basis	23 June 2003
• Holding statements dispatched	26 June 2003
• RPS2 commence trading on ASX on a normal settlement basis	27 June 2003
• First dividend payment date	15 December 2003

In view of the similarity of the RPS2 and the RPS1, Insurance Australia Group intends to request a trading halt on the RPS1 for the duration of the RPS2 bookbuild.

Insurance Australia Group draws the attention of investors to the fact that the RPS1 are scheduled to trade ex-dividend on 22 May 2003. If the trading halt is obtained from ASX then, when trading recommences, the RPS1 will be trading net of the fully franked dividend of $2.8921 per share (equivalent to $4.1316 per share if the holder is entitled to a refund of excess franking credits).

* Standard & Poor's Issue Credit Ratings are not 'market' ratings, nor are they a recommendation to buy, hold or sell securities (including RPS2).

Insurance Australia Group Limited is Australasia's leading general insurance group which has some of Australia and New Zealand's most trusted brands - NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State Insurance, NZI and ClearView Retirement Solutions. Insurance Australia Group companies also manufacture motor, home and some other lines of insurance for RACV Insurance in Victoria.