

20 March 2008

Manager, Company Announcements Office  
ASX Limited  
Level 4, Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam,

**INSURANCE AUSTRALIA GROUP LIMITED ('IAG')  
AMENDMENTS TO TERMS OF ISSUE OF RPS2 (IAGPB)**

Investors in IAG reset preference shares issued in June 2003 ("RPS2", ASX code IAGPB) are advised that some minor variations have been made to the terms of issue of the RPS2 ("Terms"), under the amendments power in clause 8 (Amendments to Terms of Issue).

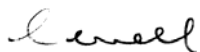
In summary, the changes are to:

- amend the timing requirements for giving Holder Exchange Notices (under clause 3.1) and an Issuer Exchange Notice (under clause 3.3);
- confirm and clarify the scope of IAG's authorisations under the Terms to take necessary steps on behalf of Holders to facilitate Exchange transactions and mechanisms authorised under clause 3; and
- confirm and clarify the interpretation of the timing for despatching and receiving notices by IAG and Holders, respectively, under the Terms.

A copy of the amended Terms are annexed.

If there are any questions in relation to this matter, please do not hesitate to contact Mr Michael Woods, Head of Investor Relations, telephone 02 9292 3156 or [investor.relations@iag.com.au](mailto:investor.relations@iag.com.au).

Yours sincerely,



Glenn Revell  
**Group Company Secretary**

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## RPS2: Terms of Issue

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

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### 1 Face Value

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

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### 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:

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

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:

$$(\text{Market Rate} + \text{Margin}) \times (1 - T)$$

where:

**Market Rate** expressed as a percentage per annum:

- (i) for the period to the first Reset Date, is 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 ( $T_i$ ) 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):

$$\text{Dividend} \times \frac{(1 - T_i)}{(1 - T)}$$

where:

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

**$T_i$**  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:

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

where:

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

**T<sub>i</sub>** 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.

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## 3 Exchange

### 3.1 Exchange by the Holder

- (a) Holders may deliver:
- (i) a Holder Exchange Notice to the Company no later than ~~35~~24 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~~21 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):

$$AS = N \times (CR - 1)$$

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.

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## **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  $\frac{(FR - FRG)}{(FP - FPG)}$

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.

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## 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.

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## **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).

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## **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.

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## **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.

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## 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) Each Holder appoints each of the Company, its officers and any liquidator or administrator of the Company (each an Attorney) severally to act on behalf of the Holder to sign all documents and transfers and do any other thing in the Holder's name and on the Holder's behalf as may, in the Attorney's opinion, be necessary or desirable to be done in order to complete or effect transactions or procedures authorised under clause 3 (other than clause 3.1(a)) of these Terms of Issue, including, without limitation, to sign forms and give instructions to the registry on behalf of the Holder.
- (d) 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, and deemed receipt by, members of the Company and the relevant provisions of the Company's constitution apply with all necessary modification to notices to Holders.
- (e) For the purposes of these Terms of Issue, for the avoidance of doubt:
- (i) where the Company is required to give or serve a notice by a certain date under these Terms of Issue, the Company is required to despatch the notice by that date (including at the Company's discretion, by posting or lodging notices with a mail house) and delivery or receipt (or deemed delivery) is permitted to occur after that date; and
- (ii) where a Holder is required to give or deliver a notice to the Company by a certain date under these Terms of Issue, the notice must be received by the Company by that date.
- (d)(f) Unless otherwise specified, a reference to a clause is a reference to a clause of these Terms of Issue.
- (e)(g) 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)(h) Definitions and interpretation under the Company's constitution will also apply to these Terms of Issue subject to clause 9(a).
- (g)(i) 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)(j) 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.

~~(j)(k)~~ 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)(l)~~ 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)(m)~~ 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.