

PRODUCT DISCLOSURE STATEMENT.

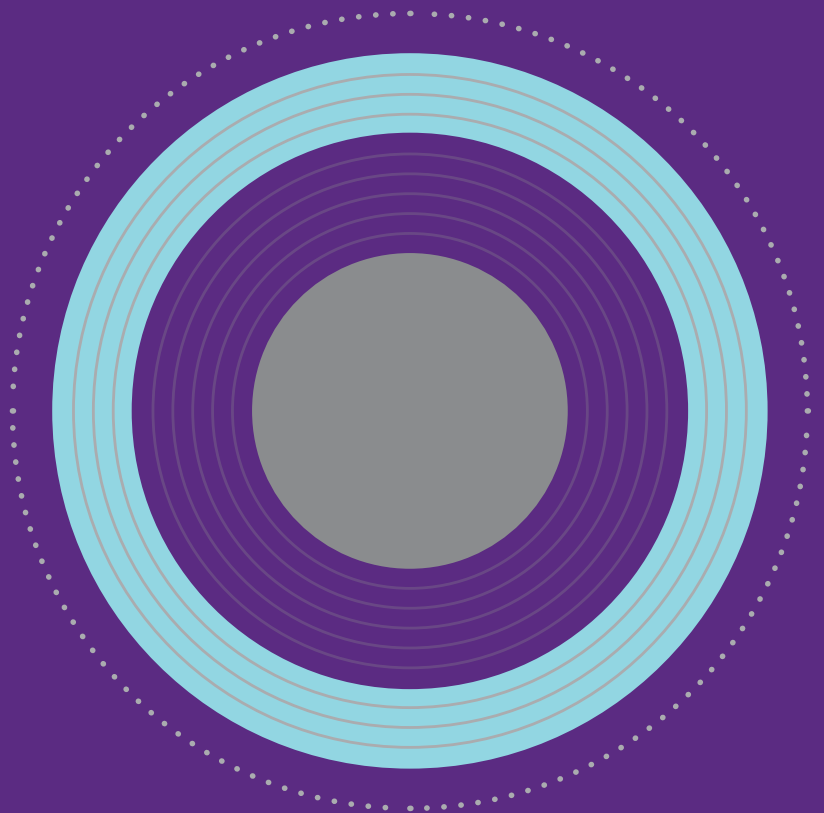
For an offer of unsecured subordinated convertible notes by Insurance Australia Group Limited (IAG).

Date: 9 May 2016

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.business.govt.nz/disclose.

These unsecured subordinated convertible notes are complex financial products that are not suitable for many investors. If you do not fully understand how they work or the risks associated with them, you should not invest in them. You can seek advice from a financial adviser to help you make an investment decision.

Insurance Australia Group Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013.



Joint Lead Managers



Co-Managers



DeutscheCRAIGS



Westpac
Institutional Bank

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KEY INFORMATION SUMMARY.



WHAT IS THIS?

This is an offer of unsecured subordinated convertible notes (**Notes**). The Notes are debt securities issued by Insurance Australia Group Limited (**IAG**). You give IAG money, and in return IAG promises to pay you interest and repay the money at the end of the term.

If your Notes have not previously been redeemed and are outstanding, you can elect to convert (**Convert**) your Notes into ordinary shares in IAG (**Ordinary Shares**) on certain dates. If a Non-Viability Trigger Event occurs (eg because IAG or another entity in the Group encounters severe financial difficulty), some or all of your Notes will be Converted into Ordinary Shares or written-off if Conversion does not occur when required, in which case you will lose your investment.

If your Notes Convert into Ordinary Shares, you may receive a return if dividends are paid or if you subsequently sell those Ordinary Shares. If IAG runs into financial trouble, you might lose some or all of the money you invested.

ABOUT THE GROUP

IAG is an ASX-listed company incorporated in Australia. IAG is the holding company of a group of general insurance businesses with leading and established brands in Australia and New Zealand and a presence in Asia.

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

PURPOSE OF THIS OFFER

This Offer forms part of IAG's capital management strategy and proceeds will be used for IAG's general corporate purposes. The Notes will qualify as regulatory capital for Australian regulatory purposes when they are issued.

KEY TERMS OF THE OFFER

Description of the debt securities	Unsecured subordinated convertible notes
Term	27 years maturing on the Maturity Date (15 June 2043) if not repaid, Converted or Written-Off before that date
Interest rate	<p>The interest rate will be the Fixed Rate until the First Optional Redemption Date (15 June 2022). The Fixed Rate will be determined on the Rate Set Date (18 May 2016) and announced via NZX on or before the Opening Date</p> <p>From the First Optional Redemption Date, the interest rate will be the Floating Rate. The Floating Rate will be determined on the first Business Day of each quarterly Interest Period and announced via NZX on that date</p>
Opening Date	19 May 2016
Closing Dates	<ul style="list-style-type: none"> • General Offer: 10 June 2016 • Re-investment Offer: 10 June 2016
Interest Payment Dates	<p>Interest is scheduled to be paid in arrear on:</p> <ul style="list-style-type: none"> • each quarterly Scheduled Interest Payment Date, being 15 March, 15 June, 15 September and 15 December in each year during the term of the Notes, commencing on 15 September 2016, but not including the Maturity Date; and • the date of repayment of the Notes
Deferral of interest	IAG may defer the payment of interest on the Notes on a Scheduled Interest Payment Date (unless the Notes are being repaid on that date) if an Interest Deferral Condition exists – see Section 6.3 of this PDS (Deferral of interest)
Holder Conversion	If your Notes are still outstanding, you can elect for some or all of your Notes to be Converted into Ordinary Shares on a Holder Conversion Date – being any Scheduled Interest Payment Date from (and including) 15 June 2025 and the Maturity Date (15 June 2043)
Conversion following a Non-Viability Trigger Event	Some or all of your Notes will Convert into Ordinary Shares if a Non-Viability Trigger Event occurs. A Non-Viability Trigger Event will occur if APRA (the Australian prudential regulator) determines that IAG would be non-viable without the Conversion or a public sector injection of capital or equivalent capital support (eg because IAG or another entity in the Group encounters severe financial difficulty)
Write-Off	<p>If Conversion is required following a Non-Viability Trigger Event and your Notes are not Converted into Ordinary Shares for any reason, those Notes will be Written-Off.</p> <p>This means you will receive nothing further in relation to those Notes, your rights under them will be cancelled and you will lose all of your investment in them. You will not receive any compensation, and you have no right to take action against IAG if any of your Notes are Written-Off</p>
Receipt of Ordinary Shares on Conversion	You will receive approximately NZ\$1.01 worth of Ordinary Shares for each of your Notes that is Converted, unless a cap referred to as the “Maximum Conversion Number” applies – see Section 6.7 of this PDS (Conversion formulae). It is likely the Maximum Conversion Number will apply following a Non-Viability Trigger Event, in which case you may receive significantly less than NZ\$1.01 worth of Ordinary Shares for each of your Notes that is Converted

NO GUARANTEE

IAG is solely responsible for paying interest on the Notes and for the repayment of the Notes if not Converted or Written-Off.

The Notes are not guaranteed by any other member of the Group, by any other person or by any government.

HOW YOU CAN GET YOUR MONEY OUT EARLY

Early repayment

The Notes are a long-term investment with a term of 27 years.

However IAG may, subject to conditions, at its option repay all (but not some only) of the Notes on an Optional Redemption Date or if a Regulatory Event or Tax Event occurs. **You should not assume that IAG will choose to repay the Notes early.**

The Optional Redemption Dates are each Scheduled Interest Payment Date from (and including) 15 June 2022 to (and including) 15 June 2023.

You have no right to request that your Notes be repaid early.

Sale of Notes or Ordinary Shares (if Notes are Converted)

IAG intends to quote these Notes on the NZX Debt Market. This means you may be able to sell them on the NZX Debt Market before the end of their term if there are interested buyers. If you sell your Notes, the price you get will vary depending on factors such as the financial condition of the Group and movements in the market interest rates. You may receive less than the full amount that you paid for them.

If the Notes are Converted, IAG does not intend to quote the Ordinary Shares on a licensed market in New Zealand. The existing Ordinary Shares are currently able to be traded on ASX and IAG must use reasonable endeavours to quote the Ordinary Shares issued on Conversion of your Notes on ASX. This means you may be able to sell any Ordinary Shares you receive on Conversion of your Notes on ASX if those Ordinary Shares are quoted and there are interested buyers. You may get less than you invested. The price will depend on the demand for the Ordinary Shares.

HOW NOTES RANK FOR REPAYMENT

Ranking if no Conversion or Write-Off

In a winding up of IAG (if your Notes have not been Converted or Written-Off in full), your claim for payment of the Face Value of your Notes and accrued interest will rank:

- ahead of claims of Shareholders and holders of other subordinated securities that, by their terms, rank after the Notes;
- equally with claims of other Holders and holders of other subordinated securities that rank equally with the Notes; and
- behind all other claims on IAG.

Ranking following Conversion

If any of your Notes are Converted, you will become a Shareholder. In a winding up of IAG, your Ordinary Shares will rank equally with other Ordinary Shares on issue and behind all other claims on IAG.

Ranking on Write-Off

You will have no claim in the winding up of IAG if all of your Notes are Written-Off.

Section 6.10 of this PDS (Ranking) explains how the Notes rank in comparison to other capital instruments currently issued by IAG. Section 7.4 of this PDS (Table of capital instruments) contains more information on those capital instruments.

NO SECURITY

The Notes are not secured against any asset of IAG.

WHERE YOU CAN FIND THE GROUP'S FINANCIAL INFORMATION

The financial position and performance of the Group are essential to an assessment of IAG's ability to meet its obligations under the Notes. You should also read Section 7 of this PDS (Group's financial information).

KEY RISKS AFFECTING THIS INVESTMENT

Investments in debt securities have risks. A key risk is that IAG does not meet its commitments to repay you or pay you interest (credit risk). Section 8 of the PDS (risks of investing) discusses the main factors that give rise to the risk. You should consider if the credit risk of these debt securities is suitable for you.

The interest rate for these Notes should also reflect the degree of credit risk. In general, higher returns are demanded by investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the offer is fair. IAG considers that the most significant risk factors are:

Catastrophes

Large-scale claims arising from inherently unpredictable catastrophes (such as cyclones, earthquakes, tsunamis, wind, hail, floods, fire and volcanic activity) may adversely affect the Group's earnings and financial condition. Reinsurance is used extensively to mitigate these risks.

Latent claims

New types of latent claims may arise under certain product classes offered by the Group that could have a material adverse impact on the Group's financial position and performance. An historical example includes claims arising from asbestos. Reinsurance and policy exclusions are used to manage these risks.

Reinsurance

The Group may suffer losses if:

- its reinsurance cover is not adequate, does not match its risk profile or cannot be maintained on a cost-effective basis; or
- a reinsurer defaults on its obligation to pay claims due to financial difficulties or disputed coverage.

Uncertainty of future policy liabilities

The Group's liabilities for future policy benefits and unpaid claims in its general insurance business is uncertain. There is no certainty that the ultimate costs will not materially exceed the amounts of the Group's estimated liabilities, which can adversely affect the Group's financial position and performance.

Investment performance

The Group maintains investment portfolios for funds set aside to pay expected future claims and capital provided to the Group. These investment portfolios are exposed to risk and volatility, which may result in a material adverse impact on the Group's financial position and performance.

If one or more of these risks eventuate, it may adversely affect the financial position and performance of IAG which may in turn:

- adversely affect the market price and liquidity of the Notes;
- lead to an Interest Deferral Condition existing, meaning interest may not be paid on the Notes when scheduled;
- result in IAG not being Solvent, or not being Solvent if it made a payment on the Notes, in which case IAG cannot be compelled to make a payment on the Notes; or
- result in a Non-Viability Trigger Event, meaning some or all of your Notes will be Converted into Ordinary Shares or, if any of those Notes cannot be Converted for any reason, those Notes will be Written-Off and you will lose your investment in them.

If these Notes convert into shares, these risks will change significantly. You should consider whether the degree of uncertainty about the Group's future performance and returns is suitable for you.

This summary does not cover all of the risks of investing in the Notes. You should also read Section 6 (Key features of Notes) and Section 8 (Risks of investing) of this PDS.

WHAT IS THE NOTES' CREDIT RATING?

A credit rating is an independent opinion of the capability and willingness of an entity to repay its debts (in other words, its creditworthiness). It is not a guarantee that the financial product being offered is a safe investment. A credit rating should be considered alongside all other relevant information when making an investment decision.

The Notes have been rated by Standard & Poor's. Standard & Poor's gives ratings from AAA through to CC, excluding ratings attached to entities in default, as set out in the table below.

Credit ratings by Standard & Poor's may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories and can be varied or withdrawn at any time.

As at the date of this PDS, the Notes have a credit rating of BBB from Standard & Poor's.

Range of credit ratings for Standard & Poor's	AAA	AA	A	BBB Credit rating for the Notes	BB	B	CCC	CC
Summary description of the rating	Capacity to make timely payment				Vulnerability to non-payment			
	Extremely strong	Very strong	Strong	Adequate	Less vulnerable	More vulnerable	Currently vulnerable	Currently highly vulnerable

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LETTER FROM THE CHAIRMAN OF IAG'S BOARD.

Dear Investor

On behalf of the directors of Insurance Australia Group Limited (**IAG**), it is my pleasure to provide you with the opportunity to invest in a new issue of subordinated unsecured convertible notes (**Notes**) issued by IAG.

IAG is the ASX-listed parent of a leading general insurance group in Australia and New Zealand with a presence in Asia (**Group**).

In New Zealand, the Group's businesses, which include State, NZI, AMI and Lumley Insurance, have a deep heritage dating back 150 years. These businesses are some of the country's leading providers of general insurance, distributing products both directly to customers and indirectly through insurance brokers and agents.

IAG intends to issue up to NZ\$250 million of Notes with the ability to accept up to a further NZ\$100 million in oversubscriptions. The Notes will count as Tier 2 Capital for IAG and its operating insurance subsidiaries and associates. The offer of the Notes is a key component of IAG's capital management strategy.

I encourage you to read this Product Disclosure Statement carefully before deciding whether to invest in the Notes. The Notes are complex securities and may not be suitable for many investors.

The Notes are expected to be quoted on the NZX Debt Market and have been assigned a credit rating of BBB by Standard & Poor's.

The terms of the offer, key features of the offer, the risks of investing and key dates of the offer are all included in this document. We encourage you to lodge your application at your earliest convenience as early bird interest on accepted subscriptions will be payable from the day your application monies are banked.

Investors in IAG's existing NZ\$ subordinated bonds are most welcome to continue their association with IAG and a convenient re-investment offer is included to streamline your participation in this new offer.

On behalf of the directors of IAG, I look forward to welcoming you as an investor in the Notes.

Yours faithfully

Elizabeth Bryan AM
Chairman

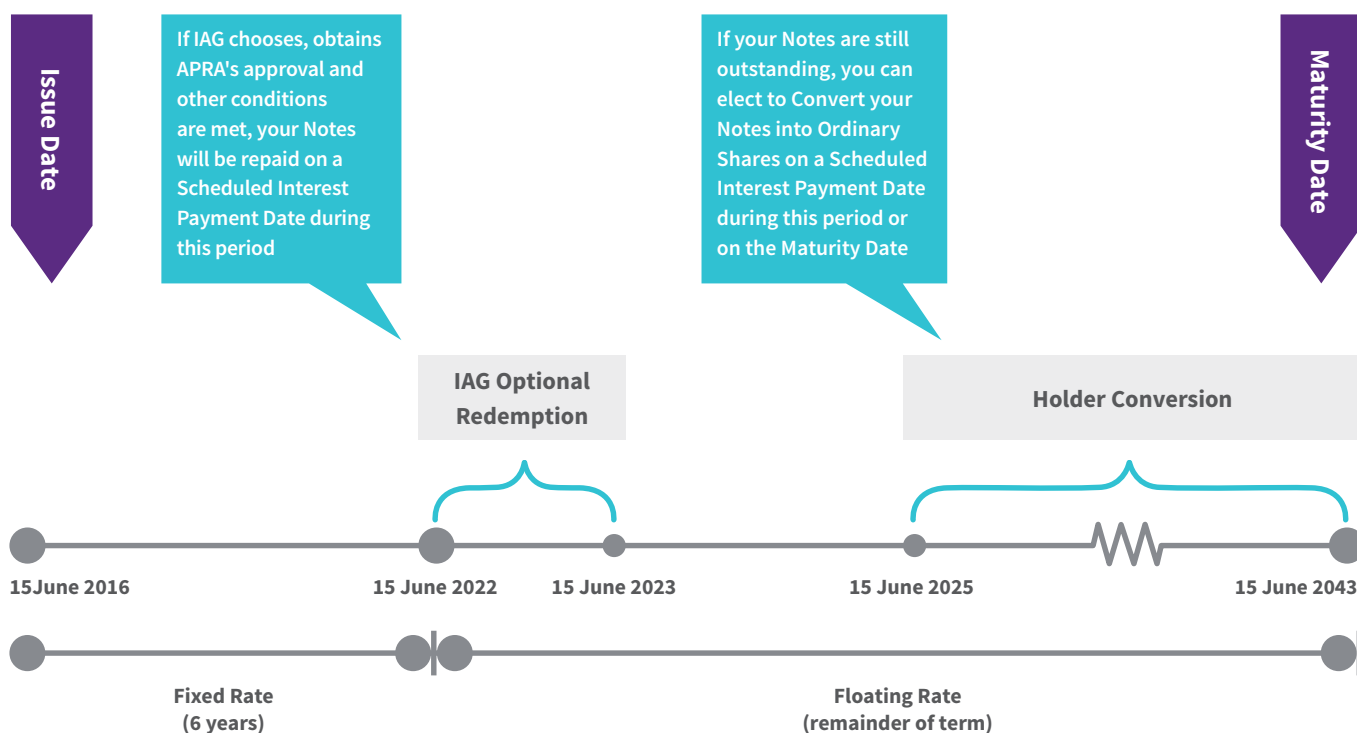
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KEY DATES AND OFFER PROCESS.



Rate Set Date		18 May 2016
Opening Date		19 May 2016
Closing Dates	General Offer	10 June 2016
	Re-investment Offer	10 June 2016
Issue Date		15 June 2016
Expected date of initial quotation and trading of the Notes on the NZX Debt Market		16 June 2016
First Interest Payment Date		15 September 2016
Scheduled Interest Payment Dates		15 March, 15 June, 15 September and 15 December in each year
Maturity Date		15 June 2043
Optional Redemption Dates		Each Scheduled Interest Payment Date from (and including) 15 June 2022 to (and including) 15 June 2023
Holder Conversion Dates		Each Scheduled Interest Payment Date from (and including) 15 June 2025 and the Maturity Date (15 June 2043)

ISSUE TIMELINE



The Opening Date and the Closing Dates are indicative only and are subject to change. IAG has the right in its absolute discretion to open or close the Offer early, to accept late applications, and to extend the Closing Dates. If IAG changes any of the Opening Date and/or the Closing Dates, the changes will be announced via NZX as soon as reasonably practicable. If the Closing Dates are extended, the Issue Date, the expected date of initial quotation and trading of the Notes on the NZX Debt Market, the Scheduled Interest Payment Dates, the Optional Redemption Dates, the Holder Conversion Dates and the Maturity Date may be extended accordingly. Any such changes will not affect the validity of any applications received.

IAG reserves the right to cancel the Offer and the issue of the Notes. If this occurs:

- all application monies received under the General Offer will be refunded (without interest) as soon as practicable, and in any event within 5 Business Days of IAG announcing that the Offer has been cancelled; and
- none of the 2011 NZ\$ Bonds will be purchased by IAG under the Re-investment Offer.

If you wish to apply for Notes, the Securities Registrar must have received your completed application (and, in the case of the General Offer, payment in full) no later than 5pm (New Zealand time) on the Closing Date – see Section 15 of this PDS (How to apply).

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TERMS OF THE OFFER.



3.1 DESCRIPTION OF THE NOTES

The Notes	
Issuer	Insurance Australia Group Limited
Description	Unsecured subordinated convertible notes
Term	27 years maturing on the Maturity Date (15 June 2043)
Face Value	NZ\$1.00 per Note
Interest rate	The interest rate until the First Optional Redemption Date (15 June 2022) will be the Fixed Rate. From the First Optional Redemption Date, the interest rate will be the Floating Rate. See Section 6.2 of this PDS (Interest)
Interest payments	Interest is scheduled to be paid in arrear on: <ul style="list-style-type: none"> • each quarterly Scheduled Interest Payment Date, being 15 March, 15 June, 15 September and 15 December in each year during the term of the Notes, commencing on 15 September 2016, but not including the Maturity Date; and • the date of repayment of the Notes, subject to adjustment in accordance with the Business Day convention below
Deferral of interest	IAG may defer the payment of interest on the Notes on a Scheduled Interest Payment Date (unless the Notes are being repaid on that date) if an Interest Deferral Condition exists. Interest accrues daily on interest that is deferred in accordance with the Conditions at the applicable Interest Rate – see Section 6.3 of this PDS (Deferral of interest)
Early repayment	IAG may at its option repay all (but not some only) of the Notes on an Optional Redemption Date or if a Regulatory Event or Tax Event occurs. In each case, early repayment is subject to APRA’s prior written approval and the satisfaction of other conditions. You should not assume that IAG will choose to repay the Notes early or that the conditions to early repayment (including APRA’s approval) will be satisfied The Optional Redemption Dates are each of the Scheduled Interest Payment Dates from (and including) 15 June 2022 to (and including) 15 June 2023. See Section 6.4 of this PDS (Repayment of the Face Value) for more information on when a Regulatory Event or Tax Event may occur. You have no right to request that your Notes be repaid early

The Notes

Holder Conversion	<p>If your Notes are still outstanding, you can elect for some or all of your Notes to be Converted into Ordinary Shares on a Holder Conversion Date.</p> <p>The Holder Conversion Dates are each of the Scheduled Interest Payment Dates from (and including) 15 June 2025 and the Maturity Date (15 June 2043).</p> <p>See Sections 6.5 (Holder Conversion), 6.7 (Conversion formulae) and 6.8 (Receipt of Ordinary Shares on Conversion) of this PDS for more information on Holder Conversion</p>
Conversion following a Non-Viability Trigger Event	<p>Some or all of your Notes will be Converted into Ordinary Shares if a Non-Viability Trigger Event occurs. A Non-Viability Trigger Event can occur if IAG or another entity in the Group encounters severe financial difficulty.</p> <p>See Sections 6.6 (Conversion and Write-Off following a Non-Viability Trigger Event), 6.7 (Conversion formulae) and 6.8 (Receipt of Ordinary Shares on Conversion) of this PDS for more information on Conversion following a Non-Viability Trigger Event</p>
Write-Off	<p>If Conversion is required following a Non-Viability Trigger Event and your Notes are not Converted into Ordinary Shares for any reason, those Notes will be Written-Off, and you will lose all of your investment in them.</p> <p>See Section 6.6 of this PDS (Conversion and Write-Off following a Non-Viability Trigger Event)</p>
Business Day convention	<p>If a payment date is not a Business Day, IAG will make payment on the next Business Day, but no adjustment will be made to the amount of interest payable as a result of the delay.</p> <p>However, if an Interest Payment Date after the First Optional Redemption Date is not a Business Day, the Interest Payment Date will be the next Business Day unless that day falls in the next calendar month, in which case it will be the preceding Business Day, and the amount of the interest payment will be adjusted on account of the delayed or early Interest Payment Date</p>
Entitlement to payments	<p>Payments of interest on the Notes will be made to the persons who are the Holders as at 5pm (New Zealand time) on the 10th day before the relevant Interest Payment Date.</p> <p>Payments of any other amount will be made to the persons who are the Holders as at 5pm (New Zealand time) on the date as is determined by IAG and notified to NZX</p>
Limited rights of Holders to enforce payment	<p>Holders have only very limited rights to enforce IAG's payment obligations and, in particular, cannot enforce IAG's obligation to pay interest on the Notes or to repay the Face Value if IAG is not Solvent or would not be Solvent after making that payment.</p> <p>See Section 6.9 of this PDS (Events of Default)</p>
Ranking of Notes	<p>The Notes are unsecured subordinated obligations of IAG</p> <p>See Section 6.10 of this PDS (Ranking)</p>
Supervisor	<p>The Supervisor is appointed by IAG under the Trust Deed to act on behalf of Holders including in relation to IAG and in relation to matters connected with the Trust Deed or the terms of the Notes.</p> <p>The Supervisor is The New Zealand Guardian Trust Company Limited or such other supervisor as may hold office as supervisor under the Trust Deed from time to time</p>

3.2 DESCRIPTION OF THE OFFER

The Offer	
Offer amount	Up to NZ\$250 million plus up to NZ\$100 million of oversubscriptions
Offer Opening and Closing Dates and Issue Date	See Section 2 of this PDS (Key dates and Offer process)
Offer	The Notes are offered under the General Offer and the Re-investment Offer
General Offer	There is no public pool for the Notes. All Notes, including oversubscriptions, will be reserved for subscription by clients of the Joint Lead Managers, Co-Managers and Primary Market Participants (as defined in the NZX Participant Rules) and other persons invited to join the Bookbuild

The Offer

Re-investment Offer

If you hold 2011 NZ\$ Bonds, you can request that some or all of your 2011 NZ\$ Bonds be purchased by IAG on the Issue Date.

Purchase price under the Re-investment Offer

The purchase price for each 2011 NZ\$ Bond that is purchased by IAG will be an amount equal to the sum of the face value of the 2011 NZ\$ Bond (being NZ\$1.00) and the additional amount described below.

If you request IAG to purchase your 2011 NZ\$ Bonds and your application is accepted, that part of the purchase price equal to the face value of each 2011 NZ\$ Bond that is purchased will be retained by IAG and applied to pay the Issue Price of the Notes that are to be issued to you under the Re-investment Offer. This means you will not need to make any separate payment for Notes that are issued to you under the Re-investment Offer.

The additional amount that is included in the purchase price for each of your 2011 NZ\$ Bonds that is purchased by IAG under the Re-investment Offer is equal to the sum of:

- unpaid interest on the 2011 NZ\$ Bond that has accrued up to (but excluding) the Issue Date, calculated at 7.5% per annum – being the interest rate applicable to the 2011 NZ\$ Bonds (**2011 NZ\$ Bonds Interest Rate**); and
- an amount that reflects the amount of interest forgone (if any) on the 2011 NZ\$ Bond up to (but not including) 15 December 2016 (being the first call date for the 2011 NZ\$ Bonds). This additional payment is equal to the amount calculated at the rate that is equal to the difference between the 2011 NZ\$ Bonds Interest Rate and the initial interest rate on the Notes for the period from (and including) the Issue Date to (but excluding) 15 December 2016.

This additional amount will be paid to you soon after the Issue Date.

A worked example of the additional payment will be included on the Disclose register after the initial interest rate for the Notes is determined on the Rate Set Date.

Re-investment Offer process

As there is no pool of Notes reserved for holders of 2011 NZ\$ Bonds wishing to participate in the Re-investment Offer, or any public pool for the Notes, applications for Notes through the Re-investment Offer can only be made by contacting one of the Joint Lead Managers, Co-Managers and Primary Market Participants and other persons invited to join the Bookbuild.

If you apply for Notes under the Re-investment Offer, you will not be able to sell or otherwise dispose of the 2011 NZ\$ Bonds that you have requested be purchased by IAG on the Issue Date from the date your application is made

Allocation of Notes

If a Bookbuild participant receives an allocation of Notes in the Bookbuild, the allocation of those Notes to that participant's clients is determined by the participant, and not IAG

How to apply

Application instructions are set out in Section 15 of this PDS (How to apply). There are separate application forms for the General Offer and the Re-investment Offer.

IAG reserves the right to refuse all or any part of any application for Notes under the Offer without giving a reason

Early bird interest

IAG will pay you interest on your application money paid under the General Offer at 4% per annum (less any applicable withholding taxes) for the period from (and including) the date on which your application money is banked to (but excluding) the Issue Date. IAG will pay the early bird interest within 5 Business Days of the Issue Date, unless your application money is returned for any reason.

If your application is refused or accepted in part only or the Offer is withdrawn, no early bird interest will be paid on the application money returned to you.

No early bird interest is payable on applications made under the Re-investment Offer

Issue Price

Each Note is issued at par (NZ\$1.00 per Note)

Minimum application amount

\$5,000 and in multiples of \$1,000 thereafter

The Offer	
Refunds	If IAG does not accept an application (whether because of late receipt or otherwise) or accepts an application under the Offer in part only, all or the relevant balance of the application monies received in respect of that application will be repaid to the applicant (without interest) as soon as practicable and, in any event, within 5 Business Days of the Issue Date
No underwriting	The Offer is not underwritten
Brokerage	Applicants are not required to pay brokerage or any charges to IAG in relation to applications under the Offer. However, you may have to pay brokerage to the Bookbuild participant from whom you receive an allocation of Notes
Quotation	IAG intends to quote the Notes on the NZX Debt Market. NZX ticker code IAGFB has been reserved for the Notes. NZX takes no responsibility for the content of this PDS. NZX is a licensed market operator and the NZX Debt Market is a licensed market under the FMC Act
Further notes	IAG is able to issue further notes without the consent of Holders on such terms and conditions as IAG may from time to time determine
Selling restrictions	The Offer is subject to the selling restrictions contained in Section 11 of this PDS (Selling restrictions). By subscribing for Notes, each investor agrees to indemnify IAG, the Supervisor, the Securities Registrar, the Arranger, the Joint Lead Managers, the Co-Managers and their respective directors, officers, employees and agents in respect of any loss, cost, liability or expense sustained or incurred as a result of the investor breaching the selling restrictions contained in Section 11 of this PDS (Selling restrictions)
Governing law	This PDS and the contract which is formed when IAG accepts your application are governed by New Zealand law. The Notes and the Trust Deed are governed by New Zealand law, other than clauses 4.1, 4.2, 4.6, 4.7, 7, 8, 8A and 9 and schedule A of the Conditions which are governed by the laws of the State of New South Wales, Australia
ASX	ASX has confirmed that: <ul style="list-style-type: none"> it is acceptable that the maximum number of Ordinary Shares into which the Notes can be Converted in accordance with ASX Listing Rule 7.1B.1 be determined by reference to the market price of Ordinary Shares calculated as the average VWAP for Ordinary Shares in the 20 Business Days on which trading in those shares took place prior to the issue of the Notes; and the issue of Ordinary Shares on Conversion will fall within exception 4 of ASX Listing Rule 7.2 and will not require Shareholder approval at that time. ASX has also waived ASX Listing Rule 7.1 to permit IAG to issue Ordinary Shares following a Non-Viability Trigger Event in accordance with the Conditions without Shareholder approval. ASX takes no responsibility for the content of this PDS
ASIC	In accordance with the terms of ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82 (ASIC Instrument 2016/82), where IAG offers Notes to investors in New Zealand and those Notes are Converted into Ordinary Shares, those shares may be on-sold to retail investors in Australia without the lodgement of a prospectus being required in Australia at the time of the sale. This PDS is not an Australian prospectus for the purposes of the Corporations Act. However, a form of this document will be released to ASX as a notice under section 708A of the Corporations Act (as modified by ASIC Instrument 2016/82). ASIC takes no responsibility for the content of this PDS

3.3 TRADING YOUR NOTES ON THE NZX DEBT MARKET

IAG intends to quote the Notes on the NZX Debt Market. To be eligible to trade your Notes on the NZX Debt Market, you must have an account with a Primary Market Participant, a common shareholder number or CSN and an authorisation code. If you do not have an account with a Primary Market Participant, you should be aware that opening an account can take a number of days depending on the Primary Market Participant's new client procedures.

If you do not have a CSN, you will be automatically assigned one. If you do not have an Authorisation Code, it is expected that you will be sent one by the Securities Registrar. If you have an account with a Primary Market Participant and have not received an Authorisation Code by the date you want to trade your Notes, your Primary Market Participant can arrange to obtain your Authorisation Code from the Securities Registrar. Your Primary Market Participant will be charged a fee for requesting your Authorisation Code from the Securities Registrar and may pass this cost on to you.

You may only transfer your Notes in multiples of NZ\$1,000 in aggregate Face Value and after any transfer you and the transferee must each hold Notes with an aggregate Face Value of at least NZ\$5,000 (or no Notes).

You will likely have to pay brokerage on any transfer of Notes you make through a Primary Market Participant.

3.4 TRUST DEED

The terms and conditions of the Notes are set out in the Conditions, which are attached as a schedule to the Trust Deed. Holders are bound by, and are deemed to have notice of, the Trust Deed. If you require further information in relation to any Conditions or the Trust Deed, you may obtain a copy of the Trust Deed from the Disclose register.

4

THE GROUP AND WHAT IT DOES.

4.1 ABOUT IAG

IAG is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia, employing over 15,000 people. IAG is listed on ASX with ordinary shares trading under the ticker code IAG. IAG is authorised as a non-operating holding company of general insurance companies under the Insurance Act 1973 (Commonwealth of Australia) and is subject to prudential supervision by APRA – see Section 5.2 of this PDS (What is regulatory capital and why does IAG need it?) for more information. IAG is not a licensed insurer in New Zealand or in any other jurisdiction.

This PDS contains information on the Group and other associated insurance businesses because:

- IAG's subsidiaries conduct substantially all of the insurance and other business of the Group and, accordingly, the subsidiaries generate the revenues that are distributed to IAG in order for IAG to meet its liabilities, including in respect of the Notes;

- substantially all the assets of IAG are made up of shares in, or other claims on, IAG's subsidiaries and, accordingly, the claims of Holders against IAG will be limited to the value of IAG's residual claims to the net assets (if any) of the subsidiaries, after all liabilities, including to policyholders, have been discharged or provided for; and
- your returns on the Notes can be affected by the financial position and performance of members of the Group and other associated insurance businesses.

4.2 OVERVIEW OF THE BUSINESS OF THE GROUP

IAG was incorporated in 1999 although insurance products have been provided under some of the Group's brands for much longer (eg under the CGU (or predecessor) brands for over 160 years in Australia).

The Group's current businesses underwrite over A\$11.4 billion of gross written premium (**GWP**)¹ per annum, selling personal and commercial insurance under many brands including:

- in Australia, NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI;
- in New Zealand, State, NZI, AMI and Lumley Insurance; and
- in Asia, Safety and NZI (Thailand), AAA Assurance (Vietnam) and Asuransi Parolamas (Indonesia).

IAG also has interests in general insurance joint ventures in Malaysia and India. The extent of IAG's business operations in Asia is regularly reviewed and could change over time.

1. GWP are the total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.

In June 2015, IAG formed a strategic relationship with Berkshire Hathaway. Expected benefits from the strategic relationship include reduced Group earnings volatility, through a 10 year 20% whole-of-account quota share arrangement, and increased capital flexibility. Under the quota share arrangement, which came into effect on 1 July 2015, Berkshire Hathaway receives an amount equal to 20% of the Group's GWP and pays 20% of its claims, and will also reimburse IAG for its share of operating costs and pay to IAG a commission. The capital arrangements are described in Section 7.3 of this PDS (Capital management and funding).

Standard & Poor's has assigned AA- insurer financial strength and issuer credit ratings in respect of IAG's core operating subsidiaries. IAG, as the holding company for the Group and the issuer of the Notes, currently has a credit rating of A from Standard & Poor's.

The Notes have been assigned the credit rating of BBB by Standard & Poor's in accordance with Standard & Poor's methodology for rating subordinated, convertible instruments. Standard & Poor's methodology starts with the issuer credit rating for the core operating subsidiaries of the Group (as at the date of this PDS, AA-) and makes the following adjustments:

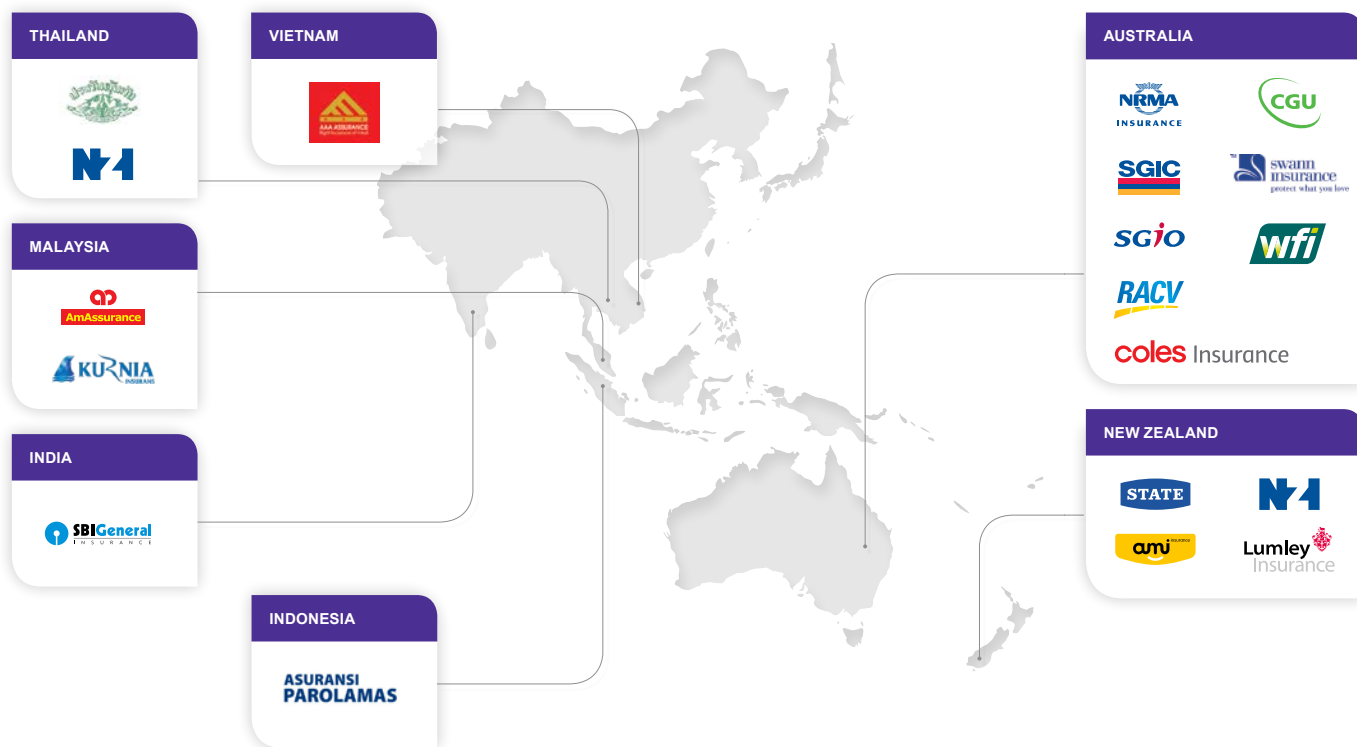
- a reduction of two ratings notches reflecting the structural subordination of the creditors of IAG, being a non-operating holding company, to creditors of the operating insurance subsidiaries (typically policyholders); and
- a further reduction of three ratings notches reflecting specific features of the Notes (one notch for the subordination to any senior creditors of IAG, one notch because interest payments may be deferred and one notch because Conversion may occur following a Non-Viability Trigger Event).

A ratings notch is the equivalent of the adjustment of a plus or minus sign within a ratings category.

These ratings are not a recommendation by Standard & Poor's to buy, sell or hold the Notes or any securities issued by the Group. Ratings are subject to suspension, revision or withdrawal at any time.

4.3 IAG'S MAJOR BRANDS AND OPERATING MODEL

IAG is the name behind some of the most well known insurance brands in the regions in which the Group operates.



4.4 BUSINESS SEGMENTS

IAG's operating model defines its core businesses around its customers, to deliver better outcomes for its customers, people and Shareholders.

The current structure, which took effect in December 2015, supports the Group's desire to become a customer-led and data-driven organisation that can adapt quickly to the rapidly changing environment in which businesses now operate.

In Australia, two customer-facing divisions are responsible for the Group's sales, service, and brand and marketing execution:

- **Australian Consumer Division** – focuses on individuals and families; and
- **Australian Business Division** – focuses on businesses of all size.

Three divisions focus on the customer experience, technology and operations to support these customer-facing divisions:

- **Customer Labs** is responsible for the customer experience strategy and driving product innovation through data and insights, brand architecture across the Group, and new business incubations and venturing;
- **Digital Labs** provides digital and design innovation while identifying and harnessing disruptive technology. Digital Labs is also accountable for building digital apps and eco-systems, and simplifying existing core platforms; and
- **Operations Division** is responsible for claims and operational functions such as procurement and supply chain management.

A new "Challenger" division underwrites the policies distributed by Coles Insurance and manages the brands that do not hold a leading position in their respective markets.

An International Division comprises the Group's market-leading presence in New Zealand and its Asia businesses:

- In New Zealand, the Group's business is the leading general insurance provider across both the direct and intermediated channels. Insurance products are sold directly to customers predominantly under the State and AMI brands, and through intermediaries (insurance brokers and authorised representatives) predominantly under the NZI and Lumley Insurance brands. Insurance products are also distributed under third party brands by IAG's corporate partners, including large financial institutions. The Group's New Zealand businesses generated GWP of approximately A\$1 billion for the six months ended 31 December 2015, representing approximately 19% of the Group's GWP; and
- In Asia, which for the six months ended 31 December 2015 represented 6.4% of the Group's GWP on a proportional basis, the Group has established a presence in the five target markets of Thailand, Vietnam, Indonesia, Malaysia and India.

4.5 STRATEGY

The Group's strategy is to leverage its market leadership to deliver great customer experiences and create value for its Shareholders, partners, people, customers and community.

IAG is creating a business that is:

- customer-led and data-driven;
- simpler and more scalable; and
- agile and quick to respond.

4.6 REINSURANCE

Reinsurance is a form of insurance for insurance companies where, in exchange for an agreed premium, the reinsurer agrees to pay all or a share of certain claims incurred by the insurance company.

Reinsurance is used by the Group to limit exposure to large single claims and accumulation of claims that arise from the same event (such as a cyclone or an earthquake). In addition to limiting

exposure to losses, reinsurance can also stabilise earnings, protect capital resources and ensure efficient control and spread of underwritten risks. The Group enters into reinsurance arrangements with numerous reinsurers, which typically renew on an annual basis.

The Group currently limits its exposure to an event or series of events to a maximum of 4% of net earned premium (**NEP**).² The 'Group Reinsurance Management Strategy' is reviewed and approved annually by the IAG board and submitted to APRA.

Catastrophe reinsurance for the calendar year commencing 1 January 2016 provides gross reinsurance protection for losses up to A\$7 billion (2015: A\$7 billion). After allowing for the 20% quota share arrangement with Berkshire Hathaway (described in Section 4.2 of this PDS (Overview of the business of the Group)), the Group retains, for each loss, the first A\$200 million for Australia, NZ\$200 million for New Zealand and A\$20 million for Thailand. The amount retained by the Group for each loss for Malaysia, which is not subject to the Berkshire Hathaway quota share arrangement, is A\$25 million.

The level of reinsurance cover for 2016 is consistent with the level of cover for 2015. This reflects the Group's stable overall aggregate exposure, with modest growth in the underlying business being offset by reduced exposure to large-corporate property which was purchased by Berkshire Hathaway as part of the strategic relationship.

The Group's catastrophe reinsurance covers all territories in which the Group operates, with the exception of its joint venture interest in India which has its own reinsurance arrangements.

A description of the risks relating to the Group's reinsurance arrangements can be found in Section 8.3 of this PDS (Specific risks relating to IAG's creditworthiness).

2. NEP is gross earned premium (**GEP**) less reinsurance expense. GEP is the amount recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.

4.7 SIGNIFICANT SUBSIDIARIES

Significant subsidiary companies of the Group and their activities as at the date of this PDS are as follows:

Name	Country of incorporation	Ownership	Principal activity
Insurance Australia Limited	Australia	100%	General insurance including brands such as NRMA Insurance
CGU Insurance Limited	Australia	100%	Commercial insurance including brands such as CGU
IAG New Zealand Limited	New Zealand	100%	NZ operating company with brands such as State, NZI and AMI
Insurance Manufacturers of Australia Pty Limited	Australia	70%	Underwriter of personal short-term insurance products distributed in Victoria under the RACV brand and in NSW, ACT and Queensland under the NRMA Insurance brand

4.8 ASSOCIATED INSURANCE BUSINESSES

In addition, as at the date of this PDS, IAG holds 20% or more of the voting rights or share capital (as applicable) in the following insurance businesses: Safety Insurance, based in Thailand; AAA Assurance Corporation, based in Vietnam; PT Asuransi Parolamas, based in Indonesia; and AmGeneral Holdings Berhad (AmGeneral), the general insurance arm of Malaysian-based AmBank Group; and SBI General Insurance Company, a joint venture with State Bank of India. The solvency and capitalisation of these businesses can affect whether an Interest Deferral Condition exists – see Section 6.3 of this PDS (Deferral of interest).

Members of the Group that IAG considers are significant subsidiaries, and entities that are associated insurance businesses of IAG, may change over the term of the Notes.

4.9 MATERIAL ACQUISITIONS AND DISPOSALS

The most significant acquisition in the last three years was the Group's 2014 purchase of the insurance underwriting businesses of Wesfarmers Limited for A\$1.845 billion, which strengthened IAG's position in its home markets of Australia and New Zealand. The acquisition included Wesfarmers' insurance underwriting companies trading under the WFI and Lumley Insurance brands, as well as a 10 year distribution agreement with Coles. The rationale for this acquisition was to deliver significant long-term value for Shareholders and unlock further growth potential for the Group's businesses in Australia and New Zealand. The acquisition was funded from a combination of equity, subordinated debt and internal funds.

IAG considers acquisition and partnership arrangements from time to time as opportunities arise to add strength to a stable of relationships, deliver opportunities for growth, or enhance IAG's digital and analytical capabilities.

4.10 IAG'S BOARD OF DIRECTORS

Elizabeth Bryan AM

BA (Econ), MA (Econ) – Chairman and Independent non-executive director

Elizabeth Bryan was appointed as a director of IAG in 2014 and became Chairman in March 2016. She is chair of the People and Remuneration Committee and the Nomination Committee and a member of the Risk Committee. Elizabeth is also Chairman of Virgin Australia Holdings Limited and a director of Westpac Banking Corporation.

Peter Harmer

Managing Director and Chief Executive Officer

Executive director

Peter Harmer was appointed Managing Director and Chief Executive Officer of IAG in 2015.

Since joining IAG in 2010, his various senior roles have included leading IAG Labs (driving digital and innovation across IAG and its brands), inaugural Chief Digital Officer and Chief Executive of IAG's Commercial Insurance division. He joined IAG as Chief Executive Officer, CGU Insurance in 2010.

Peter was previously Chief Executive Officer of Aon Limited UK and Chief Executive Officer of Aon's Australian operations.

Alison Deans

BA, MBA, GAICD – Independent non-executive director

Alison Deans was appointed as a director of IAG in 2013. She is a member of IAG's People and Remuneration Committee and Nomination Committee. Alison was formerly Chief Executive Officer of netus, an investment company focused on building consumer web businesses in Australia and acquired by Fairfax in 2012. She was appointed a director of Westpac Banking Corporation and Kikki-K in 2014 and of Cochlear Limited in 2015.

Hugh Fletcher

BSc/BCom, MCom (Hons), MBA – Independent non-executive director

Hugh Fletcher was appointed as a director of IAG in 2007 and Chair of IAG New Zealand Limited in 2003. He is a member of IAG's Audit Committee, Risk Committee and Nomination Committee. Hugh was formerly Chairman (and independent director since 1998) of New Zealand Insurance Limited and CGNU Australia. He is a director of Rubicon Limited and Vector Limited and a trustee of The University of Auckland Foundation. Hugh was formerly Chief Executive Officer of Fletcher Challenge Limited, after 28 years as an executive. Hugh is a former Deputy Chairman of the Reserve Bank of New Zealand and former member of the Asia Pacific Advisory Committee of the New York Stock Exchange.

Raymond Lim

BEcon, BA, LLM – Independent non-executive director

Raymond Lim was appointed as a director of IAG in 2013. He is a member of IAG's People and Remuneration Committee and Nomination Committee.

Raymond is Chairman of APS Asset Management, Senior Advisor to the Swire Group and a director of GIC Pte Ltd, Hong Leong Finance and Raffles Medical Group. He is an Adjunct Professor at the Lee Kuan Yew School of Public Policy, National University of Singapore and the Nanyang Technological University, Singapore.

Raymond is a former Cabinet minister in the Singapore Government (2001 to 2011).

Jonathan (Jon) Nicholson

BA – Independent non-executive director

Jon Nicholson was appointed as a director of IAG in 2015. He is a member of the Risk Committee, the Audit Committee and the Nomination Committee. Jon is chairman of Westpac Foundation, a trustee of Westpac Bicentennial Foundation, Senior Advisor of Boston Consulting Group and a non-executive director of Cape York Partnerships and QuintessenceLabs.

He previously spent eight years with Westpac Banking Corporation, first as Chief Strategy Officer and later as Enterprise Executive, and retired from Westpac in 2014. He has also held various roles with the Australian Government, including Senior Private Secretary to the Australian Prime Minister Bob Hawke and senior positions in the Department of the Prime Minister and Cabinet.

Tom Pockett

BCom, CA – Independent non-executive director

Tom Pockett was appointed as a director of IAG in 2015 and is chair of IAG's Audit Committee and a member of the Risk Committee and the Nomination Committee. Tom is a non-executive director of Stockland Corporation Limited and a director of Sunnyfield Independence Association and of O'Connell St Associates. He previously spent over 11 years as Chief Financial Officer and over seven years as Finance Director with Woolworths Limited, and retired from these roles in 2014.

Philip Twyman

BSc, MBA, FAICD – Independent non-executive director

Philip Twyman was appointed as a director of IAG in 2008. He is chair of IAG's Risk Committee and a member of the Audit Committee and the Nomination Committee. Philip was formerly group executive director of Aviva plc, one of the world's largest insurance groups. He has also been Chairman of Morley Fund Management and Chief Financial Officer of General Accident plc, Aviva plc and AMP Group. Philip is on the board of Swiss Re in Australia and is a former director of Perpetual Limited, Medibank Private Limited and Insurance Manufacturers of Australia Pty Limited.

5

PURPOSE OF THE OFFER.



5.1 PURPOSE OF THE OFFER AND USE OF THE FUNDS

The Offer forms part of IAG's prudent funding and capital management strategy which targets a diverse capital structure in terms of the amount, duration and quality of capital.

The proceeds of the Offer will be used for the general corporate purposes of the Group. The use of the money raised under the Offer will not change depending on the total amount that is raised. The Offer is not underwritten.

5.2 WHAT IS REGULATORY CAPITAL AND WHY DOES IAG NEED IT?

The Notes qualify as regulatory capital for the IAG Level 2 Insurance Group for Australian regulatory purposes. This Section sets out information about how IAG is regulated and what regulatory capital is.

Prudential regulation by APRA

APRA is the prudential regulator of the Australian financial services industry. APRA oversees Australian banks, credit unions, building societies, general insurance and reinsurance companies, life insurance companies, friendly societies, and most members of the superannuation industry. As a non-operating holding company of an insurance group, IAG is subject to prudential regulation by APRA.

APRA's mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions that APRA supervises are met within a stable, efficient and competitive financial system.

APRA's regulatory capital prudential standards that apply to general insurance holding companies and operating companies ensure that those entities or groups maintain adequate capital to support the risks associated with their activities. APRA has authorised IAG, as the ultimate parent of a group of general insurance companies, to be a non-operating holding company. The group, being IAG and its subsidiary general insurers, is collectively referred to by APRA as a "Level 2 insurance group" and compliance with APRA's capital prudential standards is assessed on a group basis, as well as on the basis of each individual general insurer that is a part of that group. This group is referred to in this PDS as the IAG Level 2 Insurance Group.

What is regulatory capital?

APRA requires general insurers and groups of general insurance companies to hold a minimum amount of regulatory capital based on the risk profile of its activities.

APRA also specifies the types of capital instruments that it will recognise when determining whether an insurer or group of insurance companies is holding the required amount of regulatory capital.

APRA classifies regulatory capital into three tiers for its supervisory purposes:

- Common Equity Tier 1 Capital is the highest quality, most loss absorbent, permanent form of capital (such as ordinary shares and retained earnings);
- Additional Tier 1 Capital is high quality capital (such as preference shares) that is also freely available to absorb losses;

Common Equity Tier 1 +
Additional Tier 1 Capital =
Total Tier 1 Capital

- Tier 2 Capital includes other instruments (such as subordinated debt) that do not have all of the loss absorbency qualities of Tier 1 Capital but are still recognised as contributing to the overall capital position of the insurer or group.

In very general terms, a capital instrument has loss absorbing qualities if the holder of the instrument has no ability to demand repayment of the instrument. For example, a holder of ordinary shares (ie Common Equity Tier 1 Capital) has no right to demand repayment of their shares whether before or after a winding up of the issuer.

A holder of a convertible instrument that qualifies as Tier 2 Capital (such as the Notes) has only a very limited ability to demand repayment of the instrument:

- before conversion, the holder of the capital instrument has a claim in the winding up of the issuer for repayment of the capital instrument; and
- after conversion, the holder will hold ordinary shares (ie Common Equity Tier 1 Capital) and will have no right to repayment of the capital instrument.

The purpose of the requirement for capital instruments to absorb losses if the issuer becomes non-viable is for the loss to be borne by shareholders or the holders of the capital instruments rather than anybody else (such as general creditors or taxpayers).

To qualify as Tier 2 Capital, the Notes are required to include terms that enable the Notes to absorb losses if IAG becomes non-viable. The Notes meet this requirement primarily by providing for some or all of the Notes to be Converted into Ordinary Shares upon the occurrence of a Non-Viability Trigger Event. However, if the Notes are not Converted into Ordinary Shares when required following a Non-Viability Trigger Event, those Notes will be Written-Off. In either case, a loss would be borne by the Holder.

APRA's website www.apra.gov.au includes further details of its functions and prudential standards.

6

KEY FEATURES OF NOTES.



6.1 GENERAL

A number of the key features of the Notes are described in Section 3 of this PDS (Terms of the Offer). Other key features of the Notes and further detail about some of the key features described in Section 3 of this PDS (Terms of the Offer) are described below. A copy of the Trust Deed is included on the Disclose register.

The information in this Section 6 is a summary of certain terms of the Trust Deed.

6.2 INTEREST

This Section 6.2 contains a summary of how the interest rate applicable to the Notes is determined and how interest payments are calculated.

Interest	
Interest rate	<p>The interest rate will be the Fixed Rate until the First Optional Redemption Date (15 June 2022). The Fixed Rate will be the sum of the 6 Year Swap Rate plus the Margin. The Fixed Rate will be determined on the Rate Set Date (18 May 2016) and announced via NZX on or before the Opening Date.</p> <p>From the First Optional Redemption Date, the interest rate will be the Floating Rate. The Floating Rate will be equal to the applicable 3 Month Bank Bill Rate plus the Margin. The Floating Rate will be determined on the first Business Day of each Interest Period and announced via NZX on that date.</p> <p>The Fixed Rate and Floating Rate are calculated using different base rates (ie the 6 Year Swap Rate and the 3 Month Bank Bill Rate respectively). They are also determined at different times. You should not expect the Floating Rate to be the same as the Fixed Rate</p>
Margin	<p>The Margin will be determined on the Rate Set Date through the Bookbuild and announced via NZX on or before the Opening Date. The Margin will not change over the term of the Notes.</p>
Bookbuild	<p>The Bookbuild is the process conducted prior to the opening of the Offer whereby certain investors and brokers lodge bids for Notes and, on the basis of those bids, IAG (in consultation with the Arranger) determines the Margin and the total amount of Notes to be issued</p>
6 Year Swap Rate	<p>Swap rates are benchmark fixed interest rates used as a reference by major financial institutions. The 6 Year Swap Rate is the reference rate used in New Zealand financial markets for an instrument with a 6 year term. Swap rates change to reflect market conditions over time.</p> <p>To calculate the Fixed Rate for the Notes, the 6 Year Swap Rate will be determined by IAG (in consultation with the Arranger) on the Rate Set Date and adjusted as necessary to a quarterly rate.</p> <p>The 6 Year Swap Rate, adjusted to a quarterly rate, as at 2 May 2016 was 2.64% per annum. However, the 6 Year Swap Rate may be higher or lower than that rate on the Rate Set Date</p>

Interest

3 Month Bank Bill Rate

The 3 Month Bank Bill Rate is a benchmark floating interest rate for the New Zealand money market. It is used by major New Zealand financial institutions as a reference rate for a term of 3 months. This rate changes to reflect market conditions within the money market.

IAG will determine the 3 Month Bank Bill Rate on the first Business Day of each Interest Period during which the Floating Rate applies. The 3 Month Bank Bill Rate (and therefore the Floating Rate) may be different for each Interest Period

Calculation of interest

Interest on each Note is calculated by reference to an Interest Period and the interest rate that applies to the Interest Period.

An **Interest Period** is the period from (and including) an Interest Payment Date (or the Issue Date in the case of the first Interest Period) to (but excluding) the next Interest Payment Date.

The Fixed Rate applies to Interest Periods ending on or before the First Optional Redemption Date (15 June 2022). For these Interest Periods, interest will be calculated on an annual basis and payable in equal quarterly amounts. For an Interest Period that ends on a day on which a Note is Converted or repaid and which is not a Scheduled Interest Payment Date, the amount of interest will be adjusted to reflect the actual number of days in the relevant Interest Period.

The Floating Rate applies to Interest Periods ending after the First Optional Redemption Date. For these Interest Periods, interest will be calculated on the basis of the actual number of days in the relevant Interest Period.

If a Note is Converted following a Non-Viability Trigger Event or Written-Off, any rights to receive interest on that Note are also terminated and written-off.

If a Note is Converted following a Holder Conversion, accrued and unpaid interest is taken into account in determining how many Ordinary Shares will be issued to you – see Section 6.7 of this PDS (Conversion formulae)

6.3 DEFERRAL OF INTEREST

This Section 6.3 explains the circumstances in which IAG is able to defer the payment of interest on the Notes and what happens to any interest payments that are deferred.

Interest deferral

Interest Deferral Condition

IAG may in its absolute discretion defer the payment of interest on the Notes on a Scheduled Interest Payment Date if an Interest Deferral Condition exists. However, IAG may not exercise this discretion if the Notes are being repaid on that Scheduled Interest Payment Date.

An Interest Deferral Condition will exist on a Scheduled Interest Payment Date if:

- on or before that date:
 - APRA requests IAG, the Group or a related insurance business in which IAG holds 20% or more of the voting rights or share capital, to restore or improve any applicable minimum or notional margin of solvency or capital adequacy levels; and
 - no interest payments have been made on instruments that are Tier 1 Capital of the IAG Level 2 Insurance Group and no dividends have been paid to Shareholders since the date of this request; or
- during the financial year that the Interest Payment Date falls in:
 - no interest payments have been made on instruments that are Tier 1 Capital or Tier 2 Capital of the IAG Level 2 Insurance Group (unless the relevant Tier 2 Capital instrument does not enable IAG to defer, pass on or eliminate payments); and
 - no other dividends or other distributions have been paid to Shareholders.

More information on IAG, the Group and its related insurance businesses, and its existing Tier 1 and Tier 2 Capital instruments relevant to the Interest Deferral Condition, is contained in Sections 4.7 (Significant subsidiaries), 4.8 (Associated insurance businesses), 7.3 (Capital management and funding) and 7.4 (Table of capital instruments) of this PDS

Interest deferral

Unpaid amounts accumulate

Amounts of interest that are not paid on the Notes because IAG has deferred payment due to an Interest Deferral Condition existing, accumulate and are payable by IAG on the earliest of the following:

- the date on which the Interest Deferral Condition ceases to exist, as explained below;
- the date on which IAG is wound up; and
- the date fixed for any redemption of Notes or the date fixed for any purchase of Notes by or on behalf of IAG.

An Interest Deferral Condition will be treated as ceasing to exist for the purposes of this Section 6.3 on the earliest of the following:

- the date on which any interest payment is made on any instruments that are Tier 1 Capital or Tier 2 Capital of the IAG Level 2 Insurance Group (other than payments on Tier 2 Capital instruments that do not enable IAG to defer, pass on or eliminate payments) or on which a dividend or other distribution on any class of IAG's share capital is paid or becomes payable;
- the date on which:

- following a request from APRA, the margin of solvency or capital adequacy levels of IAG, the Group or a related insurance business in which IAG holds 20% or more of the voting rights or share capital have been restored or improved to the satisfaction of APRA or the request is otherwise withdrawn or addressed to the satisfaction of APRA; or
- the first date on which 2 directors of IAG certify that IAG, the Group or a related insurance business in which IAG holds 20% or more of the voting rights or share capital (as applicable) meets its applicable minimum or notional margin of solvency or its capital adequacy levels, after having previously failed to do so,

unless IAG is otherwise entitled to defer payment of interest on the Notes at such time on account of an Interest Deferral Condition existing; and

- the date on which IAG commences and does not abandon a public offer to redeem, purchase or acquire any instruments that are Tier 1 Capital or Tier 2 Capital of the IAG Level 2 Insurance Group, except in connection with:
 - any employment contract, employee share scheme, performance rights plan, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants of IAG or any entity that IAG controls; or
 - a dividend re-investment plan, bonus option plan, bonus share plan, shareholder share purchase plan or top-up facility, shareholder sale facility or nominee sale facility.

Interest will accrue daily (at the interest rate then applicable to the Notes) on any interest that is not paid on a Scheduled Interest Payment Date because IAG has deferred payment due to an Interest Deferral Condition existing

No Event of Default

No Event of Default arises if IAG fails to pay an amount on the Notes on a Scheduled Interest Payment Date because IAG has deferred payment due to an Interest Deferral Condition existing. See Section 6.9 of this PDS (Events of Default) for a description of Events of Default

6.4 REPAYMENT OF THE FACE VALUE

This Section 6.4 contains a summary of when, and what happens if, your Notes are repaid.

Repayment	
Term and Maturity Date	The Notes are a long-term investment with a term of 27 years. The Notes are scheduled to be repaid by IAG on the Maturity Date (15 June 2043)
Early repayment	<p>IAG may at its option repay all (but not some only) of the Notes on an Optional Redemption Date or if a Regulatory Event or Tax Event occurs provided the conditions described below are satisfied.</p> <p>You should not assume that IAG will choose to repay the Notes early.</p> <p>Optional Redemption Dates</p> <p>The Optional Redemption Dates are each Scheduled Interest Payment Date from (and including) 15 June 2022 to (and including) 15 June 2023.</p> <p>Regulatory Event</p> <p>Broadly, a Regulatory Event will occur if IAG determines, having received:</p> <ul style="list-style-type: none"> • legal advice that, as a result of a change of law or regulation in Australia or a change in interpretation or application of those laws or regulations which, in any case, is effective or announced after the Issue Date; or • a statement in writing from APRA after the Issue Date, <p>that IAG is not or will not be entitled to treat all Notes as Tier 2 Capital of the IAG Level 2 Insurance Group. However, a Regulatory Event will not occur if, on the Issue Date, IAG expected that matters giving rise to the Regulatory Event would occur.</p> <p>Tax Event</p> <p>Broadly, a Tax Event will occur if:</p> <ul style="list-style-type: none"> • IAG would be required on the next payment due on the Notes to pay an additional amount in respect of a withholding or deduction on account of taxes on a payment on the Notes; or • IAG or the consolidated tax group of which it is a member would be exposed to more than a de minimis amount of other taxes, assessments or other governmental charges in connection with any Note; or • IAG determines that any interest payable on any Note is not or may not be allowed as a deduction for the purposes of Australian income tax. <p>However, a Tax Event will not occur if, on the Issue Date, IAG expected that matters giving rise to the Tax Event would occur.</p> <p>You have no right to request that your Notes be repaid early</p>
Conditions to early repayment	<p>IAG may not repay Notes early unless:</p> <ul style="list-style-type: none"> • it obtains the prior written approval of APRA; and • broadly, either the Notes that are repaid are replaced with a capital instrument of the same or better quality for regulatory purposes and the replacement of the Notes is done under conditions that are sustainable for the income capacity of IAG, or APRA confirms that it is satisfied that the Notes do not have to be replaced. <p>You should not assume that APRA will give its approval to an early repayment</p>
Amount you receive on repayment	When your Notes are repaid, IAG will pay you the Face Value (NZ\$1.00) for each of those Notes and you will have no further rights in respect of them. Interest is also payable on the repayment date – see Section 3 of this PDS (Terms of the Offer)
Repayment in event of IAG winding up	If IAG is being wound up and the Notes have not been Converted or Written-Off, an Event of Default will occur and the Supervisor may (or, if instructed by Holders, must) by notice to IAG declare that the Face Value of each Note and accrued and unpaid interest are immediately payable. In this circumstance, the claims of Holders will be subordinated as described in Section 6.10 of this PDS (Ranking) and you may be unable to recover some or all of the Face Value of your Notes or any accrued and unpaid interest on your Notes

6.5 HOLDER CONVERSION

This Section 6.5 provides a summary of when you may choose to Convert your Notes into Ordinary Shares if the Notes have not previously been repaid by IAG or Converted or Written-Off following a Non-Viability Trigger Event.

Holder Conversion	
Holder Conversion	<p>You may, by giving written notice to IAG, choose to Convert some or all of your Notes into Ordinary Shares on a Holder Conversion Date.</p> <p>If you elect to Convert only some of your Notes:</p> <ul style="list-style-type: none"> • you must Convert Notes having an aggregate Face Value of NZ\$5,000 and in multiples of NZ\$1,000 thereafter; and • you must have a minimum holding of Notes after Conversion with an aggregate Face Value of not less than NZ\$5,000
Holder Conversion Dates	The Holder Conversion Dates are each Scheduled Interest Payment Date from (and including) 15 June 2025 and the Maturity Date (15 June 2043).
Holder Conversion notices	A Holder Conversion notice must be given to IAG no less than 30 days and no more than 60 days before the proposed Holder Conversion Date. Once given, a Holder Conversion notice cannot be revoked
Ordinary Shares may be issued to a nominee instead of you	If any of your Notes are to be Converted on a Holder Conversion Date and you are not, or IAG believes you may not be, a New Zealand or Australian resident at the time of Conversion, the Ordinary Shares may be issued to a nominee instead of you. If this occurs, the nominee will sell those Ordinary Shares and pay you the proceeds less the sale charges.
Number of Ordinary Shares issued following Holder Conversion	The number of Ordinary Shares issued to you following a Holder Conversion may be capped at the Maximum Conversion Number in some circumstances – see Section 6.7 (Conversion formulae) of this PDS. You need to consider whether the Maximum Conversion Number is likely to apply before you elect to Convert any of your Notes

6.6 CONVERSION AND WRITE-OFF FOLLOWING A NON-VIABILITY TRIGGER EVENT

This Section 6.6 provides a summary of what happens if your Notes are required to be Converted following a Non-Viability Trigger Event.

Conversion following a Non-Viability Trigger Event	
Conversion following a Non-Viability Trigger Event	<p>If a Non-Viability Trigger Event occurs, some or all of your Notes will be Converted into Ordinary Shares or Written-Off as described below.</p> <p>If your Notes are Converted following a Non-Viability Trigger Event, the value of the Ordinary Shares you receive may be significantly less than the aggregate Face Value of those Notes</p>
Non-Viability Trigger Event	<p>A Non-Viability Trigger Event will occur if APRA has provided a written determination to IAG that without:</p> <ul style="list-style-type: none"> • the conversion or write-off of a class of capital instruments of the Group which includes the Notes; or • a public sector injection of capital into, or equivalent capital support with respect to, IAG, APRA considers that IAG would become non-viable. <p>Whether a Non-Viability Trigger Event will occur is at the discretion of APRA and there are currently no precedents for this. Nor has APRA provided guidance as to how it would determine non-viability.</p> <p>However, non-viability could be expected to include serious impairment of IAG's financial position and solvency. It is also possible that the serious impairment of the financial position of one or more of IAG's subsidiaries may impact on IAG's viability.</p> <p>In addition, APRA's definition of non-viable may not be confined to solvency or capital measures and APRA's position on these matters may change over time. Non-viability may be significantly impacted by a number of factors, including factors which affect the business, operation and financial condition of IAG. For instance, systemic and non-systemic macroeconomic, environmental and operational factors, domestically or globally, may affect the viability of IAG.</p> <p>A Non-Viability Trigger Event may occur on more than one occasion</p>

Conversion following a Non-Viability Trigger Event

Conversion may be of all or only some Notes

If a Non-Viability Trigger Event occurs because APRA determines IAG will become non-viable without a public sector injection of capital or equivalent capital support, all Notes will be Converted.

However, if a Non-Viability Trigger Event occurs for another reason, all Notes will be Converted unless APRA is satisfied that IAG will not become non-viable if only some of the Notes are Converted

Ordinary Shares may be issued to a nominee instead of you

If any of your Notes are to be Converted following a Non-Viability Trigger Event, and:

- you are not, or IAG believes you may not be, a New Zealand or Australian resident at the time of Conversion; or
- you have notified IAG prior to the Conversion Date that you do not want to receive Ordinary Shares; or
- if IAG does not have all information in relation to you that it requires in order to issue the Ordinary Shares to you,

the Ordinary Shares may be issued to a nominee instead of you. If this occurs, the nominee will sell those Ordinary Shares and pay you the proceeds less the sale charges

Conversion waterfall

If a Non-Viability Trigger Event occurs and APRA does not require all Notes to be Converted, IAG will first convert all instruments that are Tier 1 Capital of the IAG Level 2 Insurance Group that are capable of being converted into Ordinary Shares or written-off where IAG is non-viable. If the conversion of those instruments is not sufficient to satisfy APRA that IAG will cease to be non-viable, IAG will convert instruments that are Tier 2 Capital of the IAG Level 2 Insurance Group that are capable of being converted into Ordinary Shares or written-off where IAG is non-viable, including the Notes.

The only Tier 1 Capital instruments of the IAG Level 2 Insurance Group on issue as at the date of this PDS that provide for conversion into Ordinary Shares on the non-viability of IAG are the 2012 CPS. The 2012 CPS are scheduled to convert into Ordinary Shares on 1 May 2019 unless they are repurchased or converted before that date.

The only Tier 2 Capital instruments of the IAG Level 2 Insurance Group on issue as at the date of this PDS that provide for conversion into Ordinary Shares on the non-viability of IAG are the 2014 IAL Notes.

IAG gives no assurance that the 2012 CPS or 2014 IAL Notes will remain on issue or that it will issue any other Tier 1 Capital or Tier 2 Capital instruments that will convert into Ordinary Shares or be written-off if IAG becomes non-viable.

If your Notes and the 2012 CPS were both required to be converted into Ordinary Shares but conversion did not occur for any reason, your Notes would be Written-Off and you would have no claim against IAG (as described below). However, holders of the 2012 CPS would have a residual claim on IAG's assets

Notes will be Written-Off if Conversion does not occur

If Conversion is required following a Non-Viability Trigger Event and your Notes are not Converted into Ordinary Shares for any reason, those Notes will be Written-Off. **This means you will receive nothing further in relation to those Notes, your rights under them will be cancelled and you will lose all of your investment in them.** You will not receive any compensation, and you have no right to take action against IAG if any of your Notes are Written-Off. Notes may be Written-Off because matters outside IAG's control could frustrate the Conversion process and mean that Conversion does not occur when required. For instance, Conversion may not occur if IAG is insolvent and the relevant insolvency practitioner does not, or is not able to, take any of the steps that are required in order for Ordinary Shares to be issued. There may also be restrictions on who is able to hold Ordinary Shares – see Section 6.8 of this PDS (Receipt of Ordinary Shares on Conversion)

6.7 CONVERSION FORMULAE

This Section 6.7 summarises how the number of Ordinary Shares you will receive on Conversion is calculated. It contains a summary of the formulae used to determine how many Ordinary Shares you will receive on Conversion (see “Base Conversion Number” and “Maximum Conversion Number” below) followed by 3 worked examples showing how the number of Ordinary Shares you would receive varies in different circumstances. The number of Ordinary Shares that will be issued to you on Conversion will be affected by the Ordinary Share price and the NZ\$/A\$ exchange rate at the time of Conversion. Following Conversion, there is no certainty as to the future value of the Ordinary Shares.

Conversion formulae

Base Conversion Number

The number of Ordinary Shares that will be issued to you for each Note you hold that is Converted on the applicable Conversion Date will be equal to the Base Conversion Number, unless the Maximum Conversion Number is less than the Base Conversion Number (see “Maximum Conversion Number” below).

The **Base Conversion Number** is calculated on a per Note basis in accordance with the following formula:

$$\text{Base Conversion Number} = \frac{\text{Nominal Amount}}{99\% \times \text{VWAP}}$$

where:

- **Nominal Amount** is:
 - in the case of Holder Conversion, the Face Value (being NZ\$1.00) plus accrued and unpaid interest; and
 - in the case of Conversion following a Non-Viability Trigger Event, the Face Value (being NZ\$1.00); and
- **VWAP** broadly is the NZ dollar equivalent of the average of the daily volume weighted average sale prices of Ordinary Shares sold on ASX. To determine VWAP:
 - the exchange rate used to calculate the NZ dollar equivalent:
 - in the case of a Holder Conversion, is the exchange rate on the first day of the VWAP Period; and
 - in the case of Conversion following the occurrence of a Non-Viability Trigger Event, is the exchange rate on the Trigger Event Date; and
 - VWAP is calculated during the period (**VWAP Period**) of:
 - in the case of Holder Conversion, the period of 20 Business Days immediately preceding (but not including) the relevant Holder Conversion Date; and
 - in the case of Conversion following a Non-Viability Trigger Event, the period of 5 Business Days immediately preceding (but not including) the Trigger Event Date,in each case, on which the Ordinary Shares were traded on ASX.

Multiplying VWAP by 99% results in a 1% discount to the price of Ordinary Shares which is intended to assist you in covering the potential transactional costs of selling the Ordinary Shares issued to you on Conversion.

The formula above is designed to operate so that, if VWAP has not fallen to below a level where the Maximum Conversion Number applies, you will receive approximately NZ\$1.01 worth of Ordinary Shares for each of your Notes that is Converted. However, you may receive less than NZ\$1.01 worth of Ordinary Shares for each of those Notes when they are Converted because:

- VWAP during the VWAP Period may differ from the NZ dollar equivalent of the Ordinary Share price on the applicable Conversion Date; and
- the number of Ordinary Shares you will receive for each of those Notes will be capped at the Maximum Conversion Number. If VWAP has fallen significantly, the Maximum Conversion Number could be significantly lower than the Base Conversion Number, as described below.

In addition, if the total number of Ordinary Shares to be issued to you includes a fraction of an Ordinary Share, that fraction will be disregarded

Conversion formulae

Maximum Conversion Number

The number of Ordinary Shares you receive on Conversion will not in any circumstances exceed the Maximum Conversion Number. This means that if the Maximum Conversion Number is less than the Base Conversion Number, the number of Ordinary Shares issued for each Note that is Converted on the applicable Conversion Date will be limited to the Maximum Conversion Number.

The Maximum Conversion Number will apply if VWAP has fallen by more than a certain percentage from Issue Date VWAP. The applicable percentage depends on whether Conversion is:

- a Holder Conversion, in which case the Maximum Conversion number will cap the number of Ordinary Shares issued if VWAP has fallen by 50% or more from the Issue Date VWAP; or
- following a Non-Viability Trigger Event, in which case the Maximum Conversion Number will cap the number of Ordinary Shares issued if VWAP has fallen by 80% or more from Issue Date VWAP.

VWAP could fall due to a decrease in the market price of Ordinary Shares, or changes in the NZ\$/A\$ exchange rate, or both.

The **Maximum Conversion Number** is calculated on a per Note basis in accordance with the following formula:

$$\text{Maximum Conversion Number} = \frac{\text{Nominal Amount}}{\text{Issue Date VWAP} \times \text{Relevant Fraction}}$$

where:

- **Nominal Amount** has the meaning set out above in “Base Conversion Number”;
- **Issue Date VWAP** broadly is VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place on ASX immediately preceding (but not including) the Issue Date (using the exchange rate on the Issue Date); and
- **Relevant Fraction** is:
 - in the case of Holder Conversion, 0.5³; and
 - in the case of Conversion following a Non-Viability Trigger Event, 0.2⁴.

If the Maximum Conversion Number caps the number of Ordinary Shares issued to you, you may receive significantly less than NZ\$1.01 worth of Ordinary Shares for each of your Notes that is Converted and you may lose a significant amount of the money you invested as a consequence.

It is likely that the Maximum Conversion Number will apply if Conversion occurs on account of a Non-Viability Trigger Event

Adjustments to VWAP and Issue Date VWAP

VWAP, and consequently the Base Conversion Number, will be adjusted to reflect a division, consolidation or reclassification of Ordinary Shares and any dividend, distribution or entitlement (which is reflected in the quotation price) as set out in the Conditions.

Issue Date VWAP, and consequently the Maximum Conversion Number, will be adjusted to reflect a division, consolidation or reclassification of Ordinary Shares and pro rata bonus issues as set out in the Conditions.

These adjustments are intended to preserve your rights on Conversion if these events occur, as the events could result in changes to IAG’s capital structure. However, there are no adjustments for other transactions, including rights issues, which may affect the capital of IAG

3. This is a requirement of Standard & Poor's for the Notes to meet Standard & Poor's hybrid capital criteria. Multiplying Issue Date VWAP by 0.5 gives a NZ dollar amount that equals 50% of Issue Date VWAP.

4. This is a requirement of APRA designed to limit the number of Ordinary Shares that would be issued if a Non-Viability Trigger Event occurs. Multiplying Issue Date VWAP by 0.2 gives a NZ dollar amount that equals 20% of Issue Date VWAP.

Conversion formulae – worked examples

Worked examples of Conversion

Below are worked examples for:

- (1) Conversion following a Non-Viability Trigger Event where the Maximum Conversion Number caps the number of Ordinary Shares issued;
- (2) Conversion following a Holder Conversion where the Maximum Conversion Number caps the number of Ordinary Shares issued; and
- (3) Conversion following a Holder Conversion where the Maximum Conversion Number does not cap the number of Ordinary Shares issued.

The examples assume:

- an Issue Date VWAP of NZ\$6.1264;
- a holding of 10,000 Notes (having an aggregate Face Value of NZ\$10,000); and
- in the case of Holder Conversion, that there is no accrued and unpaid interest on the Conversion Date.

The Issue Date VWAP in the examples is calculated based on the closing price of Ordinary Shares as at 24 March 2016, being A\$5.47 and assuming a A\$/NZ\$ exchange rate of 1.12 (ie A\$5.47 x 1.12 = NZ\$6.1264).

Status of examples

The examples are for illustrative purposes only. The figures in the examples are not forward looking statements and do not indicate, guarantee or forecast Issue Date VWAP or future VWAP or other prices of Ordinary Shares

Example 1: Conversion following a Non-Viability Trigger Event where the Maximum Conversion Number caps the number of Ordinary Shares issued

This event could occur at any time

Assume that a Non-Viability Trigger Event occurs and VWAP is NZ\$0.15, which means it has fallen by more than 97% since the Issue Date:

$$\text{Base Conversion Number} = \frac{\text{NZ\$1.00}}{99\% \times \text{NZ\$0.15}} = 6.734 \text{ Ordinary Shares per Note}$$

$$\text{Maximum Conversion Number} = \frac{\text{NZ\$1.00}}{\text{NZ\$6.1264} \times 0.2} = 0.8161 \text{ Ordinary Shares per Note}$$

Therefore, the Maximum Conversion Number caps the number of Ordinary Shares issued. This means the total number of Ordinary Shares to which a holder of 10,000 Notes would be entitled would be the Maximum Conversion Number of 0.8161 x 10,000 ie 8,161 Ordinary Shares.

If the NZ dollar equivalent of the prevailing market price of the Ordinary Shares at the time of Conversion is equal to VWAP of NZ\$0.15, then a holder of 10,000 Notes would receive NZ\$1,224.15 worth of Ordinary Shares (ie 8,161 x NZ\$0.15) which is considerably less than NZ\$10,000 (ie the Face Value (of NZ\$1.00) of 10,000 Notes).

Example 2: Conversion following a Holder Conversion where the Maximum Conversion Number caps the number of Ordinary Shares issued

This event could occur on any Scheduled Interest Payment Date from (and including) 15 June 2025 or the Maturity Date

Assume that a Holder exercises the Holder Conversion on a Scheduled Interest Payment Date in 2026 and VWAP is NZ\$2.76, which means it has fallen by approximately 55% since the Issue Date:

$$\text{Base Conversion Number} = \frac{\text{NZ\$1.00}}{99\% \times \text{NZ\$2.76}} = 0.3660 \text{ Ordinary Shares per Note}$$

$$\text{Maximum Conversion Number} = \frac{\text{NZ\$1.00}}{\text{NZ\$6.1264} \times 0.5} = 0.3265 \text{ Ordinary Shares per Note}$$

Therefore, the Maximum Conversion Number caps the number of Ordinary Shares issued. This means the total number of Ordinary Shares to which a holder of 10,000 Notes would be entitled would be the Maximum Conversion Number of 0.3265 x 10,000 ie 3,265 Ordinary Shares.

If the NZ dollar equivalent of the prevailing market price of the Ordinary Shares at the time of Conversion is equal to VWAP of NZ\$2.76, then a holder of 10,000 Notes would receive NZ\$9,011.40 worth of Ordinary Shares (ie 3,265 x NZ\$2.76) which is less than NZ\$10,000 (ie the Face Value (of NZ\$1.00) of 10,000 Notes).

Example 3: Conversion following a Holder Conversion

where the Maximum Conversion Number does not cap the number of Ordinary Shares issued

This event could occur on any Scheduled Interest Payment Date from (and including) 15 June 2025 or the Maturity Date

Assume that a Holder exercises the Holder Conversion on a Scheduled Interest Payment Date in 2026 and VWAP is NZ\$6.1264, which means it is the same as it was on the Issue Date:

$$\text{Base Conversion Number} = \frac{\text{NZ\$1.00}}{99\% \times \text{NZ\$6.1264}} = 0.1649 \text{ Ordinary Shares per Note}$$

$$\text{Maximum Conversion Number} = \frac{\text{NZ\$1.00}}{\text{NZ\$6.1264} \times 0.5} = 0.3265 \text{ Ordinary Shares per Note}$$

Therefore, the Maximum Conversion Number does not cap the number of Ordinary Shares issued. This means the total number of Ordinary Shares to which a holder of 10,000 Notes would be entitled would be the Base Conversion Number of 0.1649 x 10,000, ie 1,649 Ordinary Shares.

If the NZ dollar equivalent of the prevailing market price of the Ordinary Shares at the time of Conversion is equal to VWAP of NZ\$6.1264, then a holder of 10,000 Notes would receive NZ\$10,102.43 worth of Ordinary Shares (ie 1,649 x NZ\$6.1264) which is marginally more than NZ\$10,000 (ie the Face Value (of NZ\$1.00) of 10,000 Notes).

6.8 RECEIPT OF ORDINARY SHARES ON CONVERSION

The Ordinary Shares that will be issued to you if your Notes are Converted are the same class as IAG's ordinary shares that, as at the date of this PDS, are quoted on ASX.

This Section 6.8 summarises the key rights attaching to the Ordinary Shares. It is not intended to be an exhaustive summary of the rights and obligations of Shareholders. The rights and liabilities attaching to the Ordinary Shares are set out in IAG's constitution and are also regulated by the Corporations Act, ASX Listing Rules and the general law. Investors who wish to inspect IAG's constitution may obtain a copy as provided under Section 14 of this PDS (Where you can find more information).

Rights and liabilities attaching to Ordinary Shares

Dividend entitlement	<p>Payment of dividends on shares, including the Ordinary Shares, is subject to IAG's directors determining a dividend is payable. Directors may only determine a dividend if, at that time, IAG complies with APRA's then prevailing prudential standards and its assets exceed its liabilities by an amount sufficient for payment of the dividend; that payment is fair and reasonable to Shareholders; and payment of the dividend does not materially prejudice IAG's ability to pay its creditors.</p> <p>Subject to the rights of any other persons entitled to shares with special dividend rights, 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</p>
Voting rights	<p>At any general meeting of IAG, every Shareholder has one vote on a show of hands and one vote for each fully paid Ordinary Share (with adjusted voting rights for partly paid Ordinary Shares) on a poll</p>
Transfer of Ordinary Shares	<p>While the Ordinary Shares are quoted on ASX, Shareholders will generally be able to sell or transfer shares without restriction. This is subject to the limitations on shareholdings in the Financial Sector (Shareholdings) Act 1998 (Commonwealth of Australia), the Corporations Act, the ASX Listing Rules and the directors' ability to decline to register a transfer in certain limited circumstances.</p> <p>The Financial Sector (Shareholdings) Act 1998 restricts ownership by people (together with their associates) of general insurer holding companies, such as IAG, to a 15% stake. A shareholder may apply to the Australian Treasurer to extend his or her ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% is in the national interest.</p> <p>Mergers, acquisitions and divestments of Australian public companies listed on ASX (such as IAG) are regulated by detailed and comprehensive legislation and the rules and regulations of ASX. These provisions include restrictions on the acquisition and sale of relevant interests in certain shares in an Australian listed company under the Corporations Act and a requirement that acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer. In addition, Australian law also regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in the market.</p> <p>You should take care to ensure that by acquiring any Notes (taking into account any Ordinary Shares into which they may Convert), you do not breach any applicable restrictions on ownership</p>

6.9 EVENTS OF DEFAULT

The Conditions have very limited Events of Default and your rights are limited if an Event of Default occurs, as described below. In particular, proceedings cannot be brought to recover unpaid amounts on the Notes if IAG is not Solvent or would not be Solvent after making the payment.

Events of Default	Consequences
Payment default	
<p>A payment default will occur if:</p> <ul style="list-style-type: none">• IAG does not pay any Face Value due in respect of the Notes within 7 days of its due date; or• IAG does not pay any interest due in respect of the Notes within 30 days of its due date. <p>To the extent that interest payable on the Notes on a Scheduled Interest Payment Date is deferred by IAG because an Interest Deferral Condition exists, the amount is not due and payable and a payment default cannot occur</p>	<p>If a payment default occurs, the Supervisor may (or, if instructed by Holders, must) bring proceedings:</p> <ul style="list-style-type: none">• to recover any amount then due and payable but unpaid on your Notes (as long as IAG is able to make the payment and remain Solvent);• to obtain an order for specific performance of any other obligation in respect of your Notes; and/or• for the winding up of IAG. <p>The outcome of any proceedings brought before a court may be uncertain, and the remedies sought following a payment default by IAG may not be granted by a court</p>
Winding up	
<p>A winding up default will occur on the commencement of winding up of IAG</p>	<p>In addition to the consequences listed above, in the case of the commencement of the winding up of IAG, the Supervisor may (or, if instructed by Holders, must) by notice to IAG declare that the Face Value and accrued but unpaid interest on the Notes is due and payable.</p> <p>In this circumstance, your claim as a Holder will be subordinated as described in Section 6.10 of this PDS (Ranking), and it is unlikely that you will receive payment of the full amount owing on your Notes</p>

6.10 RANKING

The Notes constitute unsecured subordinated obligations of IAG. Accordingly, on a winding up of IAG (if your Notes have not been Converted or Written-Off), there is a risk that you may lose some or all of the money you invested in the Notes. This is because if there are insufficient assets to satisfy creditors of IAG whose claims rank ahead of the Notes, you will not be repaid any Face Value and you will not receive any interest payments due and unpaid at that time.

If there are sufficient assets to satisfy creditors of IAG whose claims rank ahead of the Notes, there is still a risk that you may

not be repaid all of the Face Value of your Notes as there may be insufficient assets to satisfy IAG's obligation to repay the Face Value and other equal ranking obligations.

The following diagram shows how IAG's liabilities, including the Notes and other capital instruments issued by IAG, rank in a winding up of IAG. The diagram does not describe every type of liability or security that IAG may have over the term of the Notes.

You should also be aware that some capital instruments issued or guaranteed by IAG may not contain conversion or non-viability features equivalent to those

of the Notes. This means you may be in a less favourable position than holders of those other capital instruments if a Non-Viability Trigger Event occurs and your Notes are Converted. For instance, if a capital instrument that ranks equally with or below the Notes prior to Conversion is not required by its terms to absorb losses (either through conversion or write-off) at the point of IAG's non-viability, then following Conversion of the Notes your claim against IAG, as a Shareholder, would rank after the claims of the holders of those other capital instruments. See Section 7.4 of this PDS (Table of capital instruments) for more detail.

	Ranking in a winding up of IAG	Type of obligation	Examples of obligations/securities	Amount of existing liabilities and equity of IAG* (A\$ million)
Higher ranking	Liabilities that rank in priority to the Notes	Secured debt and liabilities preferred by law	Senior ranking secured obligations and liabilities mandatorily preferred by law	0
		Unsubordinated unsecured debt	Borrowings from related bodies corporate	3,438
		Subordinated unsecured debt that does not convert or write-off at the point of non-viability	Tier 2 capital instruments issued or guaranteed by IAG before 1 January 2013 (including the existing 2011 NZ\$ Bonds)	415
	Liabilities that rank equally with the Notes (including the Notes)	Subordinated unsecured debt that converts or writes off at the point of non-viability	The Notes Other Tier 2 capital instruments issued or guaranteed by IAG on or after 1 January 2013	281 0
		Preference shares*** and other equally ranked instruments	Additional Tier 1 capital instruments (such as perpetual subordinated notes and convertible preference shares) and other obligations ranking senior only to equity (including the 2012 CPS and any preference shares to be issued on exchange of the 2005 RES)	376
Lower ranking	Equity	Equity	Ordinary Shares, reserves and retained earnings	9,439

* The amounts in this table are based on IAG's financial statements for the half year ended on 31 December 2015 adjusted for expected issue proceeds.

** The indicative amount of liabilities that rank below the Notes includes A\$4 million of capitalised borrowing costs.

*** Preference shares are a form of share capital but have been classified as liabilities in this table because they rank equally with perpetual subordinated notes and above Ordinary Shares.

The 2011 NZ\$ Bonds, the 2012 CPS and the 2005 RES are described in more detail in Section 7.4 of this PDS (Table of capital instruments).

The actual amounts of liabilities and equity of IAG at the point of its winding up will be different to the indicative amount set out in the diagram above.

Basis of preparation of table

Amounts in the table above assume NZ\$300 million of Notes are issued under the Offer (including NZ\$100 million of Notes issued under the Re-investment Offer) and no repayment of further debt is made at the time of issue other than to the extent that 2011 NZ\$ Bonds are cancelled following IAG's purchase of those 2011 NZ\$ Bonds under the Re-investment Offer. This has increased the liabilities that rank equally with the Notes stated in the interim financial statements prepared as at 31 December 2015 by A\$281 million (applying an exchange rate of NZ\$1 to A\$0.937).

No restrictions on creating further liabilities

There are no restrictions on the Group creating further liabilities that rank equally with, or in priority to, the Notes in a winding up of IAG after the Notes have been issued.

The Group could therefore, at any time after the Issue Date, create further liabilities that rank equally with or in priority to the Notes. These liabilities could, for example, be other Tier 2 Capital instruments issued by IAG.

Ranking following Conversion

If any of your Notes are Converted, you will become a Shareholder. In a winding up of IAG, your Ordinary Shares will rank equally with other Ordinary Shares on issue and behind claims of holders of all other securities and debts of IAG.

Shareholders are entitled to share in surplus assets on a winding up in proportion to the amount of capital paid up (all Ordinary Shares issued on Conversion will be fully paid up). IAG's constitution also gives Shareholders the right to approve by special resolution various alternative ways in which surplus assets may be dealt with by the liquidator.

Ranking on Write-Off

You will have no claim in the winding up of IAG if all of your Notes are Written-Off. If your Notes are Written-Off, you will lose all of your investment in them.

6.11 AMENDMENTS TO THE TRUST DEED

IAG and the Supervisor are able to amend the Trust Deed without the approval of Holders if IAG and the Supervisor are satisfied that the amendment does not have a material adverse effect on the Holders. The Trust Deed may also be amended if the amendment is approved by a special resolution of Holders. Amendments which affect the regulatory capital treatment of the Notes cannot be made without APRA's prior approval. Amendments made in accordance with the Trust Deed are binding on you even if you did not agree to them.

6.12 OTHER RELEVANT INFORMATION ABOUT THE TRUST DEED

The Trust Deed also contains a number of standard provisions, including relating to:

- the role of the Supervisor and the powers and duties of the Supervisor;
- the process for replacement of the Supervisor; and
- the right of the Supervisor to be indemnified.

7

GROUP'S FINANCIAL INFORMATION.



7.1 SELECTED FINANCIAL INFORMATION

This table provides selected financial information about the Group. Full financial statements are available on the offer register at www.business.govt.nz/disclose.

The Group's financial performance and position is critical to IAG's ability to meet its obligations, including those owed to you. If you do not understand this sort of financial information, you can seek professional advice.

The Notes are not guaranteed by any member of the Group. However, the Group's financial position and performance is relevant to the repayment of the Notes. This is because the ability of IAG, as a non-operating holding company, to repay the Notes is dependent on the financial performance of the Group as a whole.

The financial information set out in this Section 7 and the full financial statements that are available on the Disclose register have been prepared in accordance with Australian GAAP instead of the usually required New Zealand GAAP, as permitted by the Financial Markets Conduct (Insurance Australia Group Limited) Exemption Notice 2016. All amounts in this Section 7 are in Australian dollars.

Where financial information set out in this Section 7 has been taken from interim financial statements, those interim financial statements have been reviewed, but not audited, by the Group's external auditor.

The financial information set out in the table below shows the financial position of the Group:

Selected financial information and ratios for the Group (All amounts are shown in A\$ million)					
	Interim financial information		As reported	As reported	As reported
	1H 2016	1H 2015	FY 2015	FY 2014	FY 2013
Gross written premium (GWP)	5,543	5,603	11,440	9,779	9,498
Revenues (gross earned premium or GEP)	5,734	5,805	11,525	9,721	9,135
EBITDA	724	861	1,262	2,011	1,794
Net profit after tax	506	642	830	1,330	1,169*
Net cash flows from operating activities	(1,082)	290	698	1,077	1,790
Cash and cash equivalents	1,497	1,573	1,433	3,010	1,716
Total assets	30,263	30,210	31,402	29,748	24,859
Total debt	1,781	1,772	1,762	1,752	1,620
Total liabilities	23,114	23,403	24,384	22,954	19,871
Equity	7,149	6,807	7,018	6,794	4,988
Debt/EBITDA			1.4x	0.9x	0.9x

Debt/EBITDA is an indicator of the degree to which an entity has borrowed against earnings. The higher the number, the greater the risk that the entity will not be able to pay off its debts.

Interest expense	51	52	107	98	95
EBITDA/interest expense	14.2x	16.6x	11.8x	20.5x	18.9x

EBITDA/interest expense is a measure of the ability of an entity to pay interest on borrowings. The lower the number, the greater the risk that the entity will not be able to pay interest.

EBITDA means net profit after tax plus interest, tax, depreciation, and amortisation as each of those items is determined in accordance with GAAP.

* This figure excludes the results of the discontinued operation.

The financial information set out in the table below shows the financial position of IAG.

Selected financial information for IAG (All amounts are shown in A\$ million)					
	Interim financial information		As reported	As reported	As reported
	1H 2016	1H 2015	FY 2015	FY 2014	FY 2013
Receivables from/loans to related bodies corporate*	249	747	527	895	1,104
Current tax assets*	40	145	-	-	-
Investment in controlled entities, associates and joint ventures*	13,369	13,176	13,306	12,417	10,414
Other*	104	85	84	89	14
Total assets	13,762	14,153	13,917	13,401	11,532
Total tangible assets	13,762	14,153	13,917	13,401	11,532
Payable to/borrowings from related bodies corporate*	-3,407	-3,814	-3,408	-2,714	-2,392
Current tax liabilities*	-	-	-34	-128	-188
Interest bearing liabilities*	-881	-872	-862	-852	-807
Other*	-35	-53	-58	-188	-9
Total liabilities	-4,323	-4,739	-4,362	-3,882	-3,396
Total net tangible assets	9,439	9,414	9,555	9,519	8,136

IAG's investments in subsidiaries are carried at the lower of cost and recoverable (i.e. fair value) amount by IAG. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in the profit and loss account. These investments are treated as monetary assets, and therefore tangible assets, under the accounting rules and for that reason included within the net tangible assets.

Except as described below, the information in the table above has been extracted from IAG's audited annual financial statements and unaudited interim financial statements. The information opposite headings designated with * in the table above was not disclosed in IAG's audited annual financial statements or unaudited interim financial statements and has been derived from trial balances used in the preparation of those financial statements.

7.2 OTHER FINANCIAL RATIOS FOR THE GROUP

Other financial ratios for the Group					
	Interim financial information		As reported	As reported	As reported
	1H 2016	1H 2015	FY 2015	FY 2014	FY 2013
Loss ratio	63.1%	67.5%	67.2%	60.2%	59.9%
Expense ratio	26.2%	27.3%	27.6%	26.7%	26.2%
Combined ratio	89.3%	94.8%	94.8%	86.9%	86.1%
Insurance margin	14.9%	13.4%	10.7%	18.3%	17.2%

The loss ratio refers to the net claims expense as a percentage of net earned premium. A high ratio may indicate high claims expenses.

The expense ratio refers to the underwriting expenses as a percentage of net earned premium. A high ratio may indicate high underwriting and commission expenses.

The combined ratio refers to the sum of the loss ratio and expense ratio.

The insurance margin refers to the insurance profit, which is a sum of the underwriting result plus investment income on technical reserves, as a percentage of net earned premium.

7.3 CAPITAL MANAGEMENT AND FUNDING

The Group's capital management strategy aims to achieve an amount and mix of capital that is appropriate for its business needs, risk appetite and delivery of sustainable attractive returns to Shareholders. The target level of capitalisation for the Group is assessed taking into account, among other factors:

- the probability of IAG (or another member of the Group) becoming insolvent over the next one to three years;
- the probability of the IAG Level 2 Insurance Group failing to hold the minimum amounts of regulatory capital required by APRA over the next one to three years;
- the views of other relevant parties on the Group's capitalisation, including capital models of rating agencies, and associated ratings; and
- Australian and international industry levels of capitalisation.

APRA prescribes a minimum level of capital which is intended to take account of the full range of risks to which a regulated institution is exposed, known as the Prescribed Capital Amount (referred to as **PCA**). The Group currently has a long-term capital benchmark of 1.4 to 1.6 times APRA's minimum PCA.

APRA also prescribes a minimum level of Common Equity Tier 1 Capital (described in Section 5.2 of this PDS (What is regulatory capital and why does IAG need it?)), being 0.6 times PCA. The Group currently has a long-term Common Equity Tier 1 Capital benchmark of 0.9 to 1.1 times PCA.

The Group measures its capital mix on a net tangible equity basis. This means measuring its capital after deduction of goodwill and intangible assets. Measuring capital in this way is consistent with regulatory and rating agency models. It is the Group's current intention to have a capital mix in the following ranges over the longer term:

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

As at 31 December 2015, the Group's capital mix was within the targeted range, with debt and hybrids representing 33.4% of total tangible capitalisation.

As part of the strategic relationship announced in 2015, Berkshire Hathaway acquired new fully paid Ordinary Shares for A\$500 million and granted IAG an option to require Berkshire Hathaway to subscribe for approximately a further 121 million Ordinary Shares. The option is exercisable at IAG's discretion until June 2017.

The price payable by Berkshire Hathaway if IAG exercises the option is based on the volume weighted average price of Ordinary Shares (**Option VWAP**) over the 5 days prior to the exercise of the option, and is capped at A\$6.50 per Ordinary Share. For example, at an Option VWAP of A\$5.40 (which would have been the Option VWAP if it was calculated as at 1 March 2016), the amount received from Berkshire Hathaway on issue of the Ordinary Shares would amount to a capital injection for IAG of A\$653 million. If the option is exercised, the Option VWAP that applies may be higher or lower than the Option VWAP used in this example.

7.4 TABLE OF CAPITAL INSTRUMENTS

As at the date of this PDS, the instruments on issue that constitute Additional Tier 1 Capital or Tier 2 Capital of the IAG Level 2 Insurance Group are set out in the table below:

Capital classification	Description of instrument	Maturity date	Does the instrument convert on a Non-Viability Trigger Event?	Is the instrument written-off if conversion is unable to occur?	Does the instrument have a call date?
Tier 2	A\$350 million subordinated medium-term notes due 2040 issued by Insurance Australia Limited (ABN 11 000 016 722) on 19 March 2014 (2014 IAL Notes)	19 March 2040	Yes	Yes	Yes The first call date is 19 March 2019
Tier 2	£100 million GBP subordinated term notes due 2026 issued by IAG on 21 December 2006	21 December 2026	No	N/A	Yes The first call date is 21 December 2016
Tier 2	NZ\$325 million NZ\$ subordinated bonds due 2036 issued by IAG on 15 December 2011 (2011 NZ\$ Bonds)	15 December 2036	No	N/A	Yes The first call date is 15 December 2016
Additional Tier 1	A\$377 million convertible preference shares issued by IAG on 1 May 2012 (2012 CPS)	1 May 2019 (mandatory conversion into Ordinary Shares)	Yes	Yes ⁵	Yes The first call date is 1 May 2017
Additional Tier 1	A\$550 million reset exchangeable securities issued by IAG Finance (New Zealand) Limited (ABN 97 111 268 243) on 11 January 2005 (2005 RES)	None (perpetual)	No	N/A	Yes The first call date is 16 December 2019 IAG also has the right to exchange the 2005 RES into preference shares in IAG at any time

7.5 OTHER LIMITATIONS, RESTRICTIONS AND PROHIBITIONS

There are no:

- financial covenants set out in the Trust Deed; or
- restrictions on the ability of any member of the Group to borrow that result from any agreement entered into by the member other than in relation to a joint venture company in which the Group holds the majority of shares. Under the shareholders' agreement relating to that company, the company may not enter into any long-term borrowing transactions.

IAG is subject to various Australian restrictions on entering into transactions with IAG's associated persons.

Chapter 2E of the Corporations Act prohibits IAG from giving a "financial benefit" to a "related party" (such as a director, their spouse and certain other relatives and any entities that control IAG) without shareholder approval. There are certain exceptions to this prohibition, including where the benefit is given on arm's length terms. The ASX Listing Rules similarly prohibit IAG from buying

or selling a substantial asset from or to a related party, subsidiary (other than a wholly-owned subsidiary) or substantial shareholder without shareholder approval.

General principles of company law and prudential regulation may also restrict transactions with affiliates in particular circumstances.

⁵ The rights of holders of the 2012 CPS are not terminated if conversion is unable to occur, but instead are varied to become broadly equivalent to the rights in respect of dividends and return of capital the holders would have had if conversion had occurred.

8

RISKS OF INVESTING.



8.1 INTRODUCTION

This Section 8 describes potential risks associated with an investment in the Notes. This Section 8 describes certain:

- general risks associated with an investment in the Notes;
- significant specific risks relating to IAG's creditworthiness;
- significant specific risks associated with a Non-Viability Trigger Event; and
- other risks associated with the Notes specifically.

The selection of risks relating to IAG's creditworthiness has been based on an assessment of a combination of the probability of a risk occurring and the impact of the risk if it did occur. This assessment is based on the knowledge of the directors of IAG as at the date of this PDS. There is no guarantee or assurance that the significance of different risks will not change or that other risks will not arise over time.

Where practicable, the Group seeks to implement risk mitigation strategies to manage the exposure to certain of the risks outlined below, although there can be no assurance that such arrangements will fully protect the Group from such risks.

Investors should carefully consider these risk factors (together with the other information in this PDS) before deciding to invest in the Notes.

This summary does not cover all of the risks of investing in the Notes.

The statement of risks in this Section 8 does not take account of the personal circumstances, financial position or investment requirements of any particular investor. It is important, therefore, that before making any investment decision, investors give consideration to the suitability of an investment in the Notes in light of their individual risk profile for investments, investment objectives and personal circumstances (including financial and taxation issues).

8.2 GENERAL RISKS

An investment in the Notes is subject to the following general risks:

The risk that IAG encounters severe financial difficulty and payments are not made on the Notes when scheduled

If IAG encounters severe financial difficulty, this may in turn:

- lead to an Interest Deferral Condition existing, meaning interest may not be paid on the Notes when scheduled;
- result in IAG being not Solvent, or not being Solvent if it made a payment on the Notes, in which case IAG cannot be compelled to make a payment on the Notes; or
- result in a Non-Viability Trigger Event occurring, meaning:
 - some or all of your Notes will be Converted into Ordinary Shares. If your Notes are Converted following a Non-Viability Trigger Event, it is likely that the Maximum Conversion Number will cap the number of Ordinary Shares you will be issued on Conversion and you may receive significantly less than NZ\$1.01 worth of Ordinary Shares for each of your Notes that is Converted; or
 - if any of those Notes cannot be Converted when required for any reason, those Notes will be Written-Off and you will lose your investment in them.

Market risks associated with the Notes

The market price of the Notes may fluctuate up or down and the Notes may trade below their Face Value

The market price of the Notes on the NZX Debt Market may fluctuate due to various factors. The Notes may trade at a market price below their Face Value and the market price of the Notes may be more sensitive than that of other comparable securities issued by IAG or other issuers to changes in interest rates, credit margins and other market prices. This means that you may lose some of the money you invested if you wish to sell your Notes at a time when the market price of the Notes is lower than the Face Value.

The liquidity of the Notes may be low

The market for the Notes may not be liquid and may be less liquid than that of other comparable securities issued by IAG or other issuers.

If liquidity is low, there is a risk that if you wish to sell your Notes prior to the Maturity Date, you may not be able to do so when you want to at an acceptable price, or at all.

The interest rate may become less attractive compared to returns on other investments

The interest rate on the Notes will be fixed for 6 years until the First Optional Redemption Date (15 June 2022) when it will change to a floating rate for the remainder of the term of the Notes. The interest rate may become less attractive compared to returns on other investments during these periods.

Risks associated with holding Ordinary Shares

If any of your Notes are Converted into Ordinary Shares, you will cease to hold those Notes and to have any rights in relation to them. Instead, you will hold Ordinary Shares (see Section 6.8 of this PDS (Receipt of Ordinary Shares on Conversion)).

Ordinary Shares are a different type of investment and are subject to different risks. Some of the key differences and principal risks associated with Ordinary Shares are summarised below:

- you may receive a return only if:
 - dividends are paid. Unlike interest on the Notes, dividends on Ordinary Shares are payable only if and when IAG's directors determine to pay them. IAG's ability to pay a dividend may be restricted by Australian law and by the terms of prior ranking shares or other instruments; or
 - the Ordinary Shares increase in value and you are able to sell them at a higher price than the amount you originally paid for your Notes (see the market risks associated with Ordinary Shares discussed below);
- in an insolvency of IAG, as a Shareholder, you will rank equally with other Shareholders and behind holders of all other securities and debts of IAG. You will only be paid after all creditors

and, if applicable, holders of preference shares have been paid and only if there are sufficient assets; and

- you may lose some or all of your investment in them.

There are also market risks associated with the Ordinary Shares. In particular:

- following Conversion, the price of the Ordinary Shares may go up or down. In particular, Ordinary Shares trade at a market price which reflects that Ordinary Shares are an equity security rather than a fixed income debt security. The market price of Ordinary Shares may be more sensitive than that of the Notes to changes in the Group's performance, operational issues and other business issues. There is no certainty as to the future value of the Ordinary Shares;
- Ordinary Shares are quoted on ASX. This means that if you want to sell any Ordinary Shares, you will need to comply with all applicable rules and procedures of ASX. Ordinary Shares are not quoted on the NZX Debt Market or any other NZX market;
- Ordinary Shares are quoted in Australian dollars. If you sell any Ordinary Shares issued to you on Conversion, the proceeds are likely to be in Australian dollars. The exchange rate between New Zealand dollars and Australian dollars may fluctuate and these changes may be significant. You may also incur fees when exchanging amounts received in Australian dollars into New Zealand dollars;
- IAG will use all reasonable endeavours to have Ordinary Shares issued on Conversion quoted on ASX. However, the Ordinary Shares issued on Conversion and Ordinary Shares generally may not be quoted, in which case you may not be able to sell them at an acceptable price, or at all; and
- if your Notes Convert, the market for Ordinary Shares may not be liquid or may be less liquid than that of other shares issued by other entities at or about the Conversion Date. You are obliged to accept the Ordinary Shares issued to you on Conversion, even if the Ordinary Shares are not quoted on ASX at the time of issue (or at all).

8.3 SPECIFIC RISKS RELATING TO IAG'S CREDITWORTHINESS

The Group is exposed to a number of risks that may affect the business of the Group and therefore the financial performance and creditworthiness of IAG.

Holders can obtain information about the performance of the Group from a variety of sources such as the Group's annual report, its half and full year results and independent assessments available in analysts' coverage.

The circumstances that IAG is aware of that exist or could arise that significantly increase the risk that payments may not be made on the Notes when scheduled or that a Non-Viability Trigger Event may occur are described below. The assessment of these circumstances is based on the business of the Group as conducted as at the date of this PDS. If the nature or scope of this business changes, other circumstances or events could give rise to this risk.

Catastrophes

As a general insurer, the Group is subject to the risk of large-scale claims arising out of catastrophes. Catastrophes may include cyclones, earthquakes, tsunamis, wind, hail, floods, fire or volcanic activity, which are inherently unpredictable with regard to incidence and severity. Claims arising out of catastrophes can be substantial, and can adversely affect the Group's financial performance and creditworthiness. Reinsurance is used extensively by the Group to mitigate the potential claims cost arising from catastrophes.

Latent claims

Certain product classes offered by the Group may also be subject to the emergence of new types of latent claims. An historical example includes claims arising from asbestos. Claims arising out of latent claims can be substantial, and can adversely affect the Group's financial performance and creditworthiness. The risks associated with latent claims are carefully considered by the Group when it determines the level of policy cover for those product classes and calculates provisions for future claims. Reinsurance is also used to reduce the impact of these claims.

Reinsurance

The Group enters into a significant number of reinsurance contracts to limit its risk exposure to any one claim, class of business or occurrence of specific events or series of events. The Group's reinsurance contracts typically renew on an annual basis. There can be no assurance that the Group's current reinsurance coverage is adequate, that it matches the underlying risks assumed, that reinsurance will be available at adequate rates or levels in the future, or that increases in reinsurance costs will be recovered through premium rates. In addition, reinsurance contracts are generally subject to change in control clauses which means there may be adverse consequences for the Group (such as termination) if the ownership of IAG changes during the term of the relevant reinsurance contract.

The limit of catastrophe cover purchased by the Group as at 1 January 2016 was A\$7 billion, of which 80% is provided through the reinsurance market and the remaining 20% is provided under the quota share arrangement with Berkshire Hathaway. The Group's event retention as at 1 January 2016 was A\$200 million (after taking into account the cover provided through the quota share reinsurance arrangement with Berkshire Hathaway). If the extent of insurance loss exceeds the upper limit of reinsurance cover, then the amount in excess of the limit plus the amount of the event retention would need to be met by the Group.

The Group is exposed to the credit risk that its reinsurers may default on their obligation to pay claims. In addition, it may take a long time for the Group to collect reinsurance monies that are owed to it, and reinsurers may dispute their liability to pay, even if the Group has a valid claim. Despite reinsurance, the Group is primarily liable to policyholders, and so a failure by a reinsurer to make payment for any reason can adversely affect the Group's financial performance and creditworthiness.

Investment performance

The Group has substantial investment portfolios made up of funds set aside to meet future claims payments and the investment of capital provided to the Group. As a consequence, investment performance can significantly affect the Group's financial performance and creditworthiness.

IAG invests in a range of different funds and markets and so is exposed to risk and volatility in those markets generally, and in the securities and other assets in which it invests. Those risks include, but are not limited to, the risks of counterparty default; fluctuations in market prices, interest rates and exchange rates; and illiquid markets.

These risks can be more extreme during periods of high volatility and market disruption, such as occurred during 2008 during the global financial crisis.

Uncertainty of future policy liabilities

The Group has a liability for future benefits payable to policyholders and for unpaid claims in its general insurance business. The assessment of these future policy liabilities depends on estimates of expected future revenue and expenses. These estimates are based on actuarial and statistical projections made on the basis of the facts and circumstances known at a given time, estimates of likely future trends, and assumptions about future investment returns, expenses and inflation rates. Although the Group maintains assets in excess of estimated future policy liabilities based on best estimate assumptions, actual results and conditions may be different from those estimated liabilities as a result of unexpected claims outcomes, natural disasters or worsening general economic conditions.

As a result of uncertainty in assessing future policy liabilities, there can be no certainty that the actual Group reserves for future unpaid claims will not materially exceed the Group's estimates. The uncertainty of future policy liabilities can expose the Group to losses and increased costs, and can adversely affect the Group's financial performance and creditworthiness.

Market and competitive position

The Group's business is concentrated in Australia and New Zealand, which respectively accounted for 77% and 19% of the Group's reported GWP for the half year ended 31 December 2015. This means the Group's performance is largely dependent on the performance of the insurance sector in these countries. While the Group's position as a leading general insurer in Australia and New Zealand is an important factor in it being able to achieve strong and sustainable insurance margins, existing and new competitors could increase pressure on the Group's ability to maintain its market share and/or its insurance margins. The Group could lose market share or be forced to reduce prices in order to compete effectively, if industry participants engage in aggressive growth strategies or severe pricing discounting.

The consequences of the Group's business concentration and the future impact of competition are uncertain, and the Group faces the risk that the profits expected will not eventuate.

Structural subordination

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

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

Changes in government policy, regulation or legislation

The general insurance industry is subject to extensive legislation, regulation and supervision by regulators including APRA and the Reserve Bank of New Zealand. Any future legislation and regulatory change may affect the insurance and finance sectors and adversely affect the Group. This could include changing the required levels of capital adequacy and/or changes to accounting standards, taxation laws and prudential regulatory requirements, and may affect the likelihood of an Interest Deferral Condition or a Non-Viability Trigger Event occurring.

Government and agency inquiries and reviews relating to general insurance arise from time to time, such as following certain natural perils or weather related events, or a periodic review of the performance of insurance schemes where coverage and pricing are regulated by government. It is possible that industry changes arising from these inquiries and reviews may result in increased costs and have an adverse effect on the financial performance and creditworthiness of the Group.

Litigation and regulatory proceedings

The Group, like all entities in the insurance or finance sectors, is exposed to the risk of litigation and regulatory proceedings brought by or on behalf of policyholders, reinsurers, government agencies or other potential claimants. In addition, the Group, in the ordinary course of business, is regularly involved in legal proceedings relating to policies underwritten by entities within the Group or arising from its operations generally. While there are no material legal proceedings that are current or known to be threatened against the Group, there can be no assurance that significant litigation will not arise in the future and that the outcome of legal proceedings from time to time will not have a material adverse effect on the Group.

Operational factors

The Group is exposed to operational risks which may result in losses, increased costs and reputational damage. These risks include: fraud and other dishonest activities; poor management practices; workplace accidents; costs arising from project and change management; compliance costs arising from business continuity and crisis management; key person risk; the failure of information and other systems; and outsourcing risks.

Impact of risks

IAG expects some of these risks to arise (either alone or in combination) in the normal course of the Group's business. When they do, this can lead to a loss, increase in costs or a reduction in revenues. The Group closely manages these risks, including by maintaining an adequate level and quality of capital that reflects the scale, nature and complexity of its business and risk profile.

In the normal course of business, these risks are not expected to have a materially adverse impact on the Group. However, in unusual circumstances, such as widespread large-scale claims arising out of unforeseen events or reinsurers not making large payments when due, or if the Group's investment portfolios perform significantly worse than anticipated, the risks can become more difficult to manage and the impact on the Group can be more severe. In certain circumstances, such as where a combination of unusual circumstances exist at the same time, the impact of those circumstances could mean that the Group is not able to make payments on the Notes when scheduled or that a Non-Viability Trigger Event may occur.

Other risks

A description of other risks that may affect the business of the Group and therefore the financial performance and creditworthiness of IAG is contained in the Disclose register. These relate to the risks arising from mergers, acquisitions and divestments, the risks relating to the global market and economic environment and the risks of adverse foreign exchange rate movements.

8.4 SPECIFIC RISKS ASSOCIATED WITH A NON-VIABILITY TRIGGER EVENT

Notes will be Converted into Ordinary Shares upon the occurrence of a Non-Viability Trigger Event

If a Non-Viability Trigger Event occurs, some or all of your Notes will be Converted into Ordinary Shares. The conversion formula is designed to operate so that you will receive approximately NZ\$1.01 worth of Ordinary Shares for each of your Notes that is Converted, unless the Maximum Conversion Number applies. It is likely the Maximum Conversion Number will cap the number of Ordinary Shares you receive on Conversion following a Non-Viability Trigger Event in which case you will receive significantly less than NZ\$1.01 worth of Ordinary Shares for each of your Notes that is Converted, and you may lose a significant amount of the money you invested as a consequence. The Maximum Conversion Number could apply due to a significant decrease in the market price of Ordinary Shares, or a significant increase in the NZ\$/A\$ exchange rate, or both. The market price of Ordinary Shares and the NZ\$/A\$ exchange rate fluctuate due to various factors. Following Conversion, there is no certainty as to the future value of the Ordinary Shares.

In addition, the NZ dollar equivalent of the Ordinary Share price used to calculate the number of Ordinary Shares you will receive on Conversion may differ from the Ordinary Share price on or after the Conversion Date. You may not be able to sell the Ordinary Shares issued to you on Conversion at the NZ dollar equivalent of the price of the Ordinary Shares on which the Conversion calculation was based, or at all.

See Section 6.6 of this PDS (Conversion and Write-Off following a Non-Viability Trigger Event).

Your Notes will be Written-Off if Conversion does not occur when required

If Conversion is required following a Non-Viability Trigger Event and your Notes are not Converted into Ordinary Shares for any reason, those Notes will be Written-Off. This means you will receive nothing further in relation to those Notes, your

rights under them (including to interest payments) will be cancelled and you will lose all of your investment in them. You will not receive any compensation, and you have no right to take action against IAG, if any of your Notes are Written-Off.

See Section 6.6 of this PDS (Conversion and Write-Off following a Non-Viability Trigger Event).

8.5 OTHER RISKS ASSOCIATED WITH THE NOTES SPECIFICALLY

The Notes are subordinated and unsecured

The Notes are subordinated and unsecured. Accordingly, on a winding up of IAG (if your Notes have not been Converted or Written-Off), there is a risk that you may lose some or all of the money you invested in the Notes.

See Section 6.10 of this PDS (Ranking).

Interest rate will change from a fixed rate to a floating rate after 6 years

The interest rate on the Notes will be fixed for 6 years until the First Optional Redemption Date (15 June 2022) when it will change to a floating rate. There is a risk that the interest rate that applies from the First Optional Redemption Date will be lower than the interest rate which applies for the first 6 years of the Notes.

See Section 6.2 of this PDS (Interest).

You have no right to request your Notes be repaid early

The Notes are a long-term investment with a term of 27 years. You cannot require IAG to repay any of your Notes before their Maturity Date (15 June 2043). To cash in your investment, you would have to sell your Notes on the NZX Debt Market at the prevailing market price, which may be less than what you paid for them.

See Section 6.4 of this PDS (Repayment of the Face Value).

IAG may repay your Notes if certain events occur

Subject to certain conditions, IAG has the right to repay your Notes before the Maturity Date (15 June 2043) if a Regulatory Event or a Tax Event occurs,

or on an Optional Redemption Date. IAG may not repay Notes early unless it obtains the prior written approval of APRA and other conditions are met. There is no certainty that APRA would provide its approval for an early repayment. The timing or occurrence of an early repayment of the Notes may not coincide with your own preferences.

See Section 6.4 of this PDS (Repayment of the Face Value).

IAG may not pay interest on a Scheduled Interest Payment Date if an Interest Deferral Condition exists on the payment date

IAG may in its absolute discretion defer the payment of interest on the Notes on a Scheduled Interest Payment Date (unless the Notes are being repaid on that date) if an Interest Deferral Condition exists on the payment date.

Changes in APRA or government policy may affect IAG's required capital levels or how IAG's existing capital is valued and accordingly whether an Interest Deferral Condition may occur.

Any deferral of interest payments is likely to have an adverse effect on the market price of the Notes. In addition, as a result of the interest deferral provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities which are not subject to interest deferral. The market price of the Notes may also be more sensitive generally to adverse changes in IAG's financial condition than other debt securities which are not subject to such deferrals.

See Section 6.3 of this PDS (Deferral of interest).

IAG may default on payment of the Face Value, interest or other amounts due on the Notes and you have limited rights in these circumstances

There is a risk that IAG may default on payment of some or all of the Face Value, interest or other amounts payable on the Notes. If IAG does not pay some or all of the Face Value or interest or other amounts payable on the Notes, your rights to enforce payment or to take other remedial action are very limited.

See Section 6.9 of this PDS (Events of Default).

IAG may amend the terms of the Notes without your consent

The terms of the Notes contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

The terms of the Notes also provide that in certain circumstances, IAG and the Supervisor may amend the terms of the Notes without the consent of Holders. Amendments made in accordance with the Trust Deed will be binding on you, even if you did not specifically agree to them.

Amendments which affect the regulatory capital treatment of the Notes cannot be made unless APRA has provided its approval.

See Section 6.11 of this PDS (Amendments to the Trust Deed).

IAG may issue more securities

IAG has the right to issue further senior debt and other obligations or securities that:

- have the same or different dividend, interest or distribution rates as the Notes;
- have the same or different maturities as the Notes;
- have the same or different terms and conditions as the Notes; and
- rank for payment of the face value, interest or other amounts (including on winding up of IAG) after, equally with, or ahead of the Notes and whether or not secured.

Such further issuance may affect your ability to be repaid on a winding up of IAG.

You have no rights if control of IAG changes

You do not have any rights to vote or object or take other action if a change of control is proposed or occurs in relation to IAG. In particular, you have no right to require early repayment or Conversion of your Notes. A change of control of IAG may result in the businesses of IAG being managed differently to the way they are currently managed and may also mean that Ordinary Shares are no longer quoted on ASX. If the Notes are required to be Converted but the Ordinary Shares are not quoted on ASX at that time, VWAP will be determined by reference to historical pricing information. In these circumstances, VWAP may not reflect the value of the Ordinary Shares at that time and, as a result, you may receive less than NZ\$1.01 worth of Ordinary Shares for each of your Notes that is Converted.

9

TAX.



The returns on the Notes will be affected by taxes. The information in this Section 9 relates to New Zealand tax resident Holders only, and is based on the law in force at the date of this PDS.

New Zealand resident withholding tax (**RWT**) will be deducted from interest paid to New Zealand tax resident Holders at the relevant rate unless a valid RWT exemption certificate has been provided to the Securities Registrar.

There may be other tax consequences for Holders from acquiring or disposing of the Notes, including under the financial arrangements rules in the Income Tax Act 2007.

Interest paid to New Zealand tax resident Holders is not expected to be subject to Australian interest withholding tax.

If any of your Notes are Converted into Ordinary Shares, any dividends you receive on the Ordinary Shares will generally be taxable to you. Depending on your particular circumstances any gains (or losses) you make on the sale or other disposal of your Ordinary Shares may be taxable (or deductible).

If you have any questions regarding the tax consequences of investing in the Notes you should seek advice from a tax adviser.

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TAX CONSEQUENCES FOR OVERSEAS HOLDERS.



Based on the law in force as at the date of this PDS, no non-resident withholding tax or approved issuer levy will be deducted from interest paid on the Notes to Holders who are not tax resident in New Zealand.

Overseas Holders may be subject to tax in their own jurisdiction and should seek advice from a tax adviser.

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SELLING RESTRICTIONS.



This PDS only constitutes an offer of Notes to the public in New Zealand and to certain New Zealand and overseas institutional investors. IAG has not taken and will not take any action which would permit a public offering of Notes, or possession or distribution of any offering material in respect of the Notes, in any country or jurisdiction where action for that purpose is required (other than New Zealand). The Notes may only be offered for sale, sold or delivered in a jurisdiction other than New Zealand in compliance with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered.

Any information memorandum, disclosure statement, circular, advertisement or other offering material in respect of the Notes may only be published, delivered or distributed in compliance with all applicable laws and regulations (including those of the country or jurisdiction in which the material is published, delivered or distributed).

Set out below are specific selling restrictions that apply to an offer of the Notes in Australia, the European Economic Area, Switzerland, Hong Kong, Japan, Singapore and Taiwan. These selling restrictions do not apply to an offer of the Notes in New Zealand.

These selling restrictions may be modified by IAG and the Joint Lead Managers, including following a change in a relevant law, regulation or directive. Persons into whose hands this PDS comes are, and each Holder is, required by IAG, the Joint Lead Managers and Co-Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

AUSTRALIA

No prospectus or other disclosure document (as defined in the Corporations Act) in relation to the Notes (including this PDS) has been or will be lodged with or registered by ASIC or ASX. No person may:

- (a) directly or indirectly offer for issue or sale, and may not invite, applications for issue, or offers to purchase, the Notes in, to or from Australia (including an offer or invitation which is received by a person in Australia); and
- (b) distribute or publish, any draft, preliminary or final form offering memorandum, advertisement or other offering material relating to the Notes in Australia,

unless:

- (i) the minimum aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in an alternate currency) (disregarding money lent by the offeror or its associates) or the offeree: (A) is a professional investor as defined in section 9 of the Corporations Act or (B) has or controls gross assets of at least A\$10 million (including any assets held by an associate or under a trust that the person manages);
- (ii) the offer or invitation does not constitute an offer to a “retail client” as defined for the purposes of section 761G of the Corporations Act; and
- (iii) such action complies with all applicable laws, directives and regulations and does not require any document to be lodged with, or registered by, ASIC.

Credit rating and distribution restrictions in Australia

Any credit rating in respect of any Notes or IAG is for distribution in Australia only to persons who are not a “retail client” within the meaning of section 761G of the Corporations Act and who are also sophisticated investors, professional investors or other investors in respect of whom disclosure is not required under Part 6D.2 or Chapter 7 of the Corporations Act and, in all cases, in such circumstances as may be permitted by applicable law in

any jurisdiction in which an investor may be located. Anyone in Australia who is not such a person is not entitled to receive this PDS and anyone who receives this PDS must not distribute it to any person who is not entitled to receive it.

EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a **Relevant Member State**), no person may with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (**Relevant Implementation Date**), make an offer of Notes which are the subject of the offering contemplated by this PDS to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Joint Lead Manager or Joint Lead Managers nominated by IAG for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require IAG or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression **Prospectus Directive** means

Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

SWITZERLAND

The Notes may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This PDS has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this PDS nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. The Notes will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations.

Neither this PDS nor any other offering or marketing material relating to the Notes has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Notes will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This PDS is personal to the recipient only and not for general circulation in Switzerland.

HONG KONG

No action has been taken to permit an offering of interests in the Notes to the public in the Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**). This document has not been authorised by the Securities and Futures Commission of Hong Kong or reviewed by any other regulatory authority in Hong Kong.

No person may:

- (a) offer or sell any Notes in Hong Kong by means of any document, other than:
 - (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong (**SFO**) and any rules made under the SFO; or
 - (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32) of Hong Kong (**Companies Ordinance**) and which do not constitute an offer to the public within the meaning of the Companies Ordinance or the SFO; and
- (b) issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong other than:
 - (i) with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO; or
 - (ii) in circumstances that do not constitute an invitation to the public for the purposes of the SFO.

This document is confidential to the person to whom it is addressed and must not be shown, further issued, passed on, circulated or distributed in any other way to any other person. If you are not the intended recipient of this document,

you are hereby notified that any review, dissemination, distribution or copying of this document is strictly prohibited.

You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

JAPAN

The Notes have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (**FIEL**) pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the Notes may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires Notes may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of Notes is conditional upon the execution of an agreement to that effect.

SINGAPORE

This PDS and any other materials relating to the Notes have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this PDS and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Notes, may not be issued, circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (**SFA**), or as otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

This PDS has been given to you on the basis that you are: (i) an "institutional investor" (as defined in the SFA) or (ii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Notes being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Notes. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

TAIWAN

The Notes have not been registered in Taiwan nor approved by the Financial Supervisory Commission of the Republic of China (Taiwan). Holders of the Notes may not resell them in Taiwan nor solicit any other purchasers in Taiwan for this offering.

NO SALE IN THE UNITED STATES

This PDS (including an electronic copy) may not be distributed or released, in whole or in part, in the United States. Neither the Notes nor the Ordinary Shares have been or will be registered under the US Securities Act of 1933, as amended (**US Securities Act**) or the securities laws of any state of the United States, and they may not be offered or sold in the United States or to or for the account or benefit of US persons (as defined in Regulation S under the US Securities Act). The Notes are being offered and sold in the Offer solely outside the United States to non-US persons pursuant to Regulation S.

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

WHO IS INVOLVED?



	Name	Role
Issuer	Insurance Australia Group Limited	Will issue the Notes
Supervisor	The New Zealand Guardian Trust Company Limited	Holds certain covenants on trust for the benefit of the Holders, including the right to enforce IAG's obligations under the Notes
Arranger and Organising Participant	ANZ Bank New Zealand Limited	Provides assistance to IAG with arranging the Offer and has responsibilities to NZX in relation to the quotation of the Notes
Joint Lead Managers	ANZ Bank New Zealand Limited and Forsyth Barr Limited	Assist with the marketing and distribution of the Offer
Co-Managers	Bank of New Zealand, Deutsche Craigs Limited, Macquarie Capital (New Zealand) Limited (acting through its affiliates) and Westpac Banking Corporation (acting through its New Zealand branch)	Assist with the marketing and distribution of the Offer
Securities Registrar	Computershare Investor Services Limited	Maintains the Register
Solicitors to the Issuer	Russell McVeagh	Provide legal advice to the Group in respect of the Offer
Solicitors to the Supervisor	Bell Gully	Provide legal advice to The New Zealand Guardian Trust Company Limited in respect of the Offer
Auditor of the Issuer	KPMG Australia	Provides guidance to the directors of IAG on materiality thresholds and performs procedures as requested by the directors of IAG to check the accuracy of financial information

12.2 NO RELIANCE

This PDS does not constitute a recommendation by the Supervisor, the Arranger, any Joint Lead Manager, any Co-Manager or any of their respective directors, officers, employees, agents or advisers to subscribe for, or purchase, any Notes.

The Supervisor, the Arranger, the Joint Lead Managers, the Co-Managers and their respective directors, officers, employees, agents or advisers to the extent allowable by law:

- do not accept any responsibility or liability whatsoever for any loss arising from this PDS or the Disclose register or their contents or otherwise arising in connection with the Offer; and
- have not independently verified the information contained in this PDS or the Disclose register and make no representation or warranty, express or implied, and do not accept any responsibility or liability for, the origin, validity, accuracy or completeness of, or any errors or omissions in, any information, statement or opinion contained in this PDS or the Disclose register.

Each recipient of this PDS must make their own independent investigation and assessment of the financial condition and affairs of the Group before deciding whether or not to apply for Notes.

HOW TO COMPLAIN.



COMPLAINTS ABOUT THE NOTES

If you have any problems or concerns about the Notes, contact IAG Investor Relations via the contact details in Section 16 of this PDS (Contact information) outlining your problems or concerns and IAG will endeavour to resolve the issues.

You may also direct any complaints about the Notes to the Supervisor at the contact details below:

The New Zealand Guardian Trust
Company Limited
Level 14
191 Queen Street
Auckland 1010
Phone: +64 9 909 5100
Attention: Relationship manager

The Supervisor is a member of an external, independent dispute resolution scheme operated by Financial Services Complaints Limited (**FSCL**) and approved by the Ministry of Consumer Affairs. If the Supervisor has not been able to resolve your issue, you can refer the matter to FSCL by emailing complaints@fscl.org.nz, calling FSCL on 0800 347 257, or contacting the Complaint Investigation Officer, Financial Services Complaints Limited, Level 12, 45 Johnston Street, Wellington 6145. The scheme will not charge a fee to any complainant to investigate or resolve a complaint.

COMPLAINTS ABOUT THE ORDINARY SHARES

If any of your Notes are Converted into Ordinary Shares and you have any problems or complaints about the Ordinary Shares, contact IAG Investor Relations via the contact details in Section 16 of this PDS (Contact information) outlining your problems or concerns and IAG will endeavour to resolve the issues.

WHERE YOU CAN FIND MORE INFORMATION.

DISCLOSE REGISTER

Further information relating to IAG and the Notes is available free of charge on the online Disclose register maintained by the Companies Office. The Disclose register can be accessed at www.business.govt.nz/disclose. A copy of the information on the Disclose register is also available on request to the Registrar of Financial Service Providers at registrar@fspr.govt.nz. The information contained on the Disclose register includes financial information relating to the Group, a copy of the Trust Deed and IAG's constitution, a credit rating report from Standard & Poor's in relation to the Notes, and other material information.

Notices to the Holders may be given by making an announcement on NZX. Alternatively, notices may be published in a daily newspaper having general circulation in New Zealand (which is expected to be *The New Zealand Herald*).

INFORMATION ABOUT IAG

IAG is a disclosing entity for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations. Under its obligations under the Corporations Act and the ASX Listing Rules, IAG prepares half yearly and annual financial statements for the Group, reports on its operations during the relevant accounting period and receives an audit report from its auditor. Copies of these and other documents lodged with ASX or ASIC can be obtained from ASX or ASIC.

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

Subject to certain exceptions, IAG must ensure that ASX is continuously notified of information about specific events and matters as they arise so that ASX can make the information available to the Australian securities market.

Upon request from the Opening Date until the Closing Date, IAG will provide, free of charge, a copy of:

- the latest Group annual financial report and full year results announcement released to ASX on 21 August 2015;
- the latest Group half year financial report and half year results announcement released to ASX on 17 February 2016; and
- any continuous disclosure notices given by IAG to ASX since 21 August 2015 and before the date of this PDS.

This information is readily available via the IAG website at <http://www.iag.com.au/news-events/announcements> or these documents can be obtained from www.asx.com.au. Alternatively, you can contact the Securities Registrar at the address set out in Section 16 of this PDS (Contact information) to request a copy.

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HOW TO APPLY.



You can apply for Notes from the Opening Date to the Closing Date. You must apply using the application form at the back of this PDS. There is a separate application form for an application for Notes made under the General Offer and for an application made under the Re-investment Offer.

As there is no public pool for the Notes, you should contact your financial adviser to arrange for your application to be submitted. Your financial adviser must ensure that your completed application form (and, in the case of the General Offer, payment in full) is received by the Securities Registrar no later than 5pm (New Zealand time) on the Closing Date.

In order to apply for the Notes you must provide personal information that will be held by IAG and the Securities Registrar. This information will be used for the purpose of managing your investment and the collection of some of this information is required or authorised by Australian company and tax laws.

You have a right to access and correct any personal information about you held by IAG and the Securities Registrar.

IAG's privacy policy is available at www.iag.com.au/privacy-and-security and you should read the Privacy Statement relating to the Notes on www.iagsubordinatednotes2016.co.nz.

These materials contain information about the contact details of IAG, how you may access your personal information that is held by IAG and the Securities Registrar, seek the correction of this information or make a privacy-related complaint and how such a complaint will be dealt with, and the third parties in Australia, New Zealand and elsewhere to whom IAG may disclose your personal information.

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CONTACT INFORMATION.



CONTACT DETAILS OF THE ISSUER OF THE NOTES:

Insurance Australia Group Limited
388 George Street
Sydney NSW 2000
Australia
Phone: +61 2 9292 9222

CONTACT DETAILS OF THE SECURITIES REGISTRAR:

**Computershare Investor
Services Limited**
Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622
Private Bag 92119
Auckland 1142
Phone: +64 9 488 8777

GLOSSARY.

3 Month Bank Bill Rate	a benchmark floating interest rate for the New Zealand money market, commonly used by major New Zealand financial institutions as a reference point for a 3 month period. It is defined in the Conditions to mean, in relation to an Interest Period, the “FRA” rate (expressed as a percentage per annum) for bank bills having a term of 3 months (rounded, if necessary, to the nearest 4 decimal places with 5 being rounded up) as displayed on Reuters page BKBM (or any page which replaces that page) on the first Business Day of the Interest Period or if that rate is not displayed by 10.45am (New Zealand time) on that date, the rate specified in good faith by IAG at or around that time on that date, having regard to the extent possible to rates quoted by each of 3 leading banks selected by IAG, as being the average of the bid and offered rates for such bank bills at or around that time on that date
6 Year Swap Rate	a benchmark fixed interest rate used in the New Zealand financial markets and is commonly used by major financial institutions as the reference rate for an instrument with a 6 year term. It is defined in the Conditions to mean the rate per annum (expressed on a percentage yield basis rounded, if necessary, to the nearest 2 decimal places with 5 being rounded up) which is determined by IAG (in consultation with the Arranger) as the mid market swap rate for a 6-year term for an interest rate swap for the period from the Issue Date to the First Optional Redemption Date in accordance with market convention by reference to Reuters page ICAPKIWISWAP1 or its successor page on the Rate Set Date, with such rate adjusted as necessary to a quarterly rate
2014 IAL Notes, 2011 NZ\$ Bonds, 2012 CPS and 2005 RES	have the meanings given to them in Section 7.4 of this PDS (Table of capital instruments)
A\$	Australian dollars
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
Arranger	ANZ Bank New Zealand Limited
ASX	ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires, or any successor
ASX Listing Rules	the listing rules of ASX, as amended, varied or waived from time to time
Base Conversion Number	the number of Ordinary Shares that will be issued to you for each Note that is Converted on a Conversion Date, unless the Maximum Conversion Number caps the number of Ordinary Shares you will be issued, as calculated in accordance with the formula set out in clause 1(a) of Schedule A to the Conditions and summarised in Section 6.7 of this PDS (Conversion formulae)

Bookbuild	the process conducted prior to the opening of the Offer whereby certain investors and brokers lodge bids for Notes and, on the basis of those bids, IAG and the Arranger determine the Margin and the total amount of Notes to be issued
Business Day	<ul style="list-style-type: none"> • in relation to the Conversion of Notes, a day which is a business day within the meaning of the ASX Listing Rules; • for the purposes of giving notices, a day which is a business day within the meaning of the NZX Listing Rules; and • for all other purposes, a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for general banking business in Auckland and Wellington
Closing Dates	the General Offer closing date (10 June 2016) and the Re-investment Offer closing date (10 June 2016)
Co-Managers	Bank of New Zealand, Deutsche Craigs Limited, Macquarie Capital (New Zealand) Limited (acting through its affiliates) and Westpac Banking Corporation (acting through its New Zealand branch)
Conditions	the conditions of the Notes as set out in Schedule 3 of the Trust Deed
Conversion Date	<ul style="list-style-type: none"> • in relation to Conversion by a Holder, the applicable Holder Conversion Date; and • in relation to Conversion following a Non-Viability Trigger Event, the Trigger Event Date
Convert	the conversion of Notes into Ordinary Shares in accordance with the Conditions. Converted and Conversion have corresponding meanings
Corporations Act	the Corporations Act 2001 (Commonwealth of Australia)
Disclose register	the online offer register maintained by the Companies Office and the Registrar of Financial Service Providers known as “Disclose”, which can be accessed at www.business.govt.nz/disclose
Event of Default	has the meaning given in Condition 11.1, and is summarised in Section 6.9 of this PDS (Events of Default)
Face Value	NZ\$1.00 per Note
First Optional Redemption Date	15 June 2022
Fixed Rate	the sum of the 6 Year Swap Rate plus the Margin
Floating Rate	in relation to an Interest Period commencing on or after the First Optional Redemption Date, the sum of the 3 Month Bank Bill Rate for that Interest Period plus the Margin
FMC Act	Financial Markets Conduct Act 2013
FMC Regulations	Financial Markets Conduct Regulations 2014
General Offer	the Offer of Notes under this PDS, subject to the Selling restrictions
GAAP	generally accepted accounting practice in Australia
GEP	gross earned premium. GEP is explained in Section 4.6 of this PDS (Reinsurance)
Group	IAG and all of its subsidiaries
GWP	gross written premium. GWP is explained in Section 4.2 of this PDS (Overview of the business of the Group)
Holder	a person whose name is entered in the Register as a holder of a Note
Holder Conversion	the Conversion of a Note as elected by a Holder on a Holder Conversion Date (see Section 6.5 of this PDS (Holder Conversion))
Holder Conversion Date	each Scheduled Interest Payment Date from (and including) 15 June 2025 and the Maturity Date (15 June 2043)
IAG	Insurance Australia Group Limited
IAG Level 2 Insurance Group	the Level 2 insurance group (as defined by APRA from time to time) of which IAG is the parent entity. See Section 5.2 of this PDS (What is regulatory capital and why does IAG need it?) for more information

Interest Deferral Condition	a condition which, if it exists on a Scheduled Interest Payment Date that is not an early repayment date, allows IAG to defer the payment of interest on the Notes on that Scheduled Interest Payment Date. The Interest Deferral Conditions are set out in the definition of “Optional Interest Payment Date” in clause 1.1 of the Conditions and are summarised in Section 6.3 of this PDS (Deferral of interest)
Interest Payment Dates	<ul style="list-style-type: none"> • each Scheduled Interest Payment Date; and • the date of repayment of the Notes, subject to adjustment in accordance with the Business Day convention described in Section 3.1 of this PDS (Description of the Notes).
Interest Period	the period from (and including) an Interest Payment Date (or the Issue Date in the case of the first Interest Period) to (but excluding) the next Interest Payment Date
Issue Date	15 June 2016
Issue Price	\$1.00 per Note, being the Face Value of each Note
Joint Lead Managers	ANZ Bank New Zealand Limited and Forsyth Barr Limited
Listing Rules	the listing rules applying to the NZX Debt Market, as amended, varied or waived from time to time
Margin	the rate (expressed as a percentage rate per annum) as determined under the Bookbuild and announced via NZX on or before the Opening Date
Maturity Date	15 June 2043
Maximum Conversion Number	the maximum number of Ordinary Shares that may be issued to you for each Note that is Converted on a Conversion Date, as calculated in accordance with the formula set out in clause 1(a) of Schedule A to the Conditions and summarised in Section 6.7 of this PDS (Conversion formulae)
NEP	net earned premium. NEP is explained in Section 4.6 of this PDS (Reinsurance)
Non-Viability Trigger Event	APRA has provided a written determination to IAG that APRA considers IAG would become non-viable without: <ul style="list-style-type: none"> (a) the conversion or write-off of a class of capital instruments of the Group which includes the Notes; or (b) a public sector injection of capital into, or equivalent capital support with respect to, IAG
Notes	the notes constituted and issued pursuant to the Trust Deed and offered pursuant to this PDS
NZ\$	New Zealand dollars
NZX	NZX Limited
NZX Debt Market	the debt security market operated by NZX
NZX Listing Rules	the listing rules of NZX, as amended, varied or waived from time to time
Offer	the offer of Notes made by IAG pursuant to this PDS. The Offer is made up of a General Offer and the Re-investment Offer
Opening Date	19 May 2016
Optional Redemption Date	each Scheduled Interest Payment Date from (and including) 15 June 2022 to (and including) 15 June 2023
Ordinary Share	an ordinary share in the capital of IAG
Organising Participant	ANZ Bank New Zealand Limited
PDS	this product disclosure statement for the Offer dated 9 May 2016
Primary Market Participant	has the meaning given in the NZX Listing Rules
Rate Set Date	18 May 2016
Register	the register in respect of the Notes maintained by the Securities Registrar

Regulatory Event	<p>broadly, a Regulatory Event will occur if IAG determines, having received:</p> <ul style="list-style-type: none"> • legal advice that, as a result of a change of law or regulation in Australia or a change in interpretation or application of those laws or regulations which, in any case, is effective or announced after the Issue Date; or • a statement in writing from APRA after the Issue Date, <p>that IAG is not or will not be entitled to treat all Notes as Tier 2 Capital of the IAG Level 2 Insurance Group, provided that IAG did not expect that matters giving rise to the Regulatory Event would occur</p>
Re-investment Offer	the Offer of Notes pursuant to this PDS that is made to holders of the 2011 NZ\$ Bonds, subject to the Selling restrictions
Scheduled Interest Payment Dates	15 March, 15 June, 15 September and 15 December in each year during the term of the Notes, commencing on 15 September 2016 but not including the Maturity Date
Securities Registrar	Computershare Investor Services Limited
Selling restrictions	specific restrictions that apply to the Offer, as set out in Section 11 of this PDS (Selling restrictions)
Shareholder	a holder of an Ordinary Share
Solvent	IAG is able to pay its debts as they fall due and IAG's assets exceed its liabilities
Standard & Poor's	Standard & Poor's Rating Services, a division of McGraw-Hill Financial, Inc.
subsidiary	has the meaning given in section 6 of the FMC Act
Supervisor	The New Zealand Guardian Trust Company Limited or such other supervisor as may hold office as supervisor under the Trust Deed from time to time
Tax Event	<p>broadly, a Tax Event will occur if:</p> <ul style="list-style-type: none"> • IAG would be required on the next payment due on the Notes to pay an additional amount in respect of a withholding or deduction on account of taxes on a payment on the Notes; • IAG or the consolidated tax group of which it is a member would be exposed to more than a de minimis amount of other taxes, assessments or other governmental charges in connection with the Notes; or • IAG determines that any interest payable on the Notes is not or may not be allowed as a deduction for the purposes of Australian income tax, <p>provided that on the Issue Date, IAG did not expect that matters giving rise to the Tax Event would occur</p>
Tier 1 Capital	Tier 1 capital (as defined by APRA from time to time)
Tier 2 Capital	Tier 2 capital (as defined by APRA from time to time)
Trigger Event Date	the date on which APRA notifies IAG that a Non-Viability Trigger Event has occurred
Trust Deed	the trust deed dated 4 May 2016 between IAG and the Supervisor, as amended from time to time. The Trust Deed includes the Conditions
Written-Off	<p>in respect of a Note that is otherwise subject to Conversion following a Non-Viability Trigger Event:</p> <ul style="list-style-type: none"> • the Note that is otherwise subject to Conversion will not be Converted on that date and will not be Converted or redeemed on any subsequent date; and • on and from the expiry of the fifth Business Day after the relevant Conversion Date, the rights of the relevant Holder of the Note (including any right to receive any payment under the Note, both in the future and as accrued but unpaid as at the Conversion Date) in relation to such Note are immediately and irrevocably terminated and written-off <p>“Write-Off” has a corresponding meaning</p>

Application Instructions

There are two application forms (i) General Offer – for new investors (ii) Re-Investment Offer for current holders of the 2011 NZ\$ Bonds, who have a number of re-investment options available to them.

In either case, there is no public pool for the Notes and you should contact a Joint Lead Manager, Co-Manager or your financial advisor in order to get an allocation of Notes.

Please complete all relevant Sections of this application form using BLOCK LETTERS

A. APPLICANT DETAILS AND INFORMATION

- Insert your title, full name(s), address and telephone numbers.
- Applications must be in the name(s) of natural persons, companies or other legal entities.
- Applications by a minor, trust, fund, estate, business, firm or partnership, club or other unincorporated body cannot be accepted unless they are made in the individual name(s) of the person(s) who is (are) the legal guardian(s), trustee(s), proprietor(s), partner(s) or office bearer(s) (as appropriate).

B. COMMON SHAREHOLDER NUMBER (CSN)

- A CSN is required to trade the Notes on the NZX Debt Market. The CSN must match the name on this application form. If it does not, you will be allocated a new CSN under the name provided on this application form. If you do not have a CSN, leave the spaces above blank and you will be allocated a CSN and Authorisation Code ((FIN) which is like a pin number for buying and selling shares) when your application is received.

C. APPLICATION PAYMENT

- Payment must be made before the date specified in the PDS in New Zealand dollars for immediate value via one-time direct debit, cheque or NZClear
- An application for Notes must be for a minimum aggregate Principal Amount of NZ\$5,000 for the Notes and in multiples of NZ\$1,000 thereafter.

Option 1 – Direct Debit

- By ticking Option 1 and signing this application form, you agree that the Securities Registrar is authorised to withdraw from this account the full dollar amount of Notes applied for (or any lesser amount determined by IAG).

- The direct debit will be processed on the first Business Day after your application is received by the Securities Registrar or, if received on the Closing Date, the same Business Day. Please confirm with your bank that payments can be withdrawn from this account and ensure that there are sufficient funds in the bank account. **Should your direct debit fail, your application will be rejected.**

Option 2 – Attached cheque

- Cheques must be attached to the application form and made out in favour of “IAG Note Offer”, and crossed “Not Transferable”.
- Your cheque will be banked on the Business Day it is received. If your cheque is post-dated or dishonoured, your application may be rejected.
- Where an application is for NZ\$500,000 Principal Amount of Notes or more, payment must be made by bank cheque or any other method of payment acceptable to IAG.

Option 3 – NZClear

Only institutional investors may settle through the NZClear System and must be agreed with the Securities Registrar in advance. Interest and maturity payments will be made to the same NZClear code unless otherwise stated in Section D.

D. INTEREST AND MATURITY PAYMENTS

- Insert the New Zealand dollar bank account into which you wish interest payments to be deposited and principal when due, or Cash Management Account

E. IRD NUMBER AND TAX DEDUCTION RATE

- We recommend you seek independent tax advice.
- **Resident** – To confirm you are a New Zealand applicant, please provide a New Zealand bank account in Section D and provide your IRD number and Resident Withholding Tax (RWT) rate. Your application may be rejected if you do not provide all this information.
- If you are applying on behalf of a minor (under the age of 18) or a dependent, use their IRD number. If the applicant is a trust, company, partnership or other entity, use that entity’s IRD number.
- RWT will be deducted from any interest paid to you (unless you tick the Exempt box and provide a valid RWT exemption certificate or you have ticked the Non-resident withholding tax box).

- The RWT rate you should choose is dependent on your income level. To make sure the correct rate is applied and to find out about your obligations after the end of the tax year, go to www.ird.govt.nz/rwt or call 0800 870 700. The RWT rate for a company is 28%, if it is not acting as a trustee for the purposes of purchasing the Notes and has provided an IRD number.
- **Non-resident** – If you are a non-resident for New Zealand tax purposes under the Income Tax Act 2007, please tick this box and include your country of tax residence below. You will be treated as a New Zealand tax resident unless this box has been ticked.

F. ELECTRONIC COMMUNICATIONS

- Please enter your email address if you wish to receive, where applicable, all your communications (including transaction statements, payment advices, meeting documents and any other IAG related information) by email.

G. SIGNATURE

- Each applicant must sign this application form (including all joint applicants) and provide the confirmations below. If the applicant is a company or other entity, it should be signed by a duly authorised person in accordance with any applicable constitution or governing document. If the application form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney on the reverse of the application form. If the application form is signed by an agent, the agent must complete the certificate of agent on the reverse of the application form.
- If you elect to pay by one-time direct debit, you should ensure that the signatories are consistent with your bank authorities.
- Read the application form carefully and sign (and date) the form.
- If the application form is signed by an attorney, an original or certified copy of the relevant Power of Attorney must be lodged with the application form (originals will be returned). The attorney must complete the certificate of non-revocation on the reverse of the application form.

H. CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY/AGENT

- If the application form is signed by an agent, the agent must complete the certificate of non-revocation on the reverse of the application form.

DELIVERY

- There is no public pool for the Notes. Your completed application form must be returned to a Primary Market Participant or approved financial intermediary in time for them to send your application to the Securities Registrar by 5.00 p.m. on the Closing Date. Applications delivered directly to the Securities Registrar without a stamp from the Arranger, a Primary Market Participant or approved financial intermediary may be accepted or rejected at IAG's sole discretion.
- Applications cannot be revoked or withdrawn.
- Applicants should remember that the offer period may be changed at IAG's sole discretion.
- IAG may accept or reject any application without giving any reason.
- IAG will refuse to accept applications which are for less than the minimum amount or where no account details for payments of interest and principal by direct credit are provided.



Application Form General Offer

This application form is issued with the Product Disclosure Statement (**PDS**) dated 9 May 2016 for the offer by Insurance Australia Group Limited (**IAG**) of unsecured subordinated convertible notes (**Notes**). This application form represents an offer to purchase the Notes described in the PDS. Capitalised terms used in this application form have the same meaning given to those terms in the PDS. You should read and understand the PDS before completing your application. An application will constitute an irrevocable offer by the applicant to subscribe for and acquire the dollar amount of Notes specified on this application form (or such lesser amount which IAG may determine) on the terms and conditions set out in the PDS, the Trust Deed and this application form. An application cannot be withdrawn or revoked by the applicant once it has been submitted.

A. APPLICANT DETAILS AND INFORMATION

Title: _____ First name(s): _____ Surname: _____

Title: _____ First name(s): _____ Surname: _____

Title: _____ First name(s): _____ Surname: _____

Company/Trust/Account Designation (if applicable) _____

Contact details

Street address or PO Box: _____ Suburb/Town: _____

City: _____ Postcode: _____ Country: _____

Mobile: _____ Daytime: _____

B. COMMON SHAREHOLDER NUMBER (CSN)

If you have a CSN or Holder Number please enter it here:

If you do not have a CSN, leave boxes blank and you will be allocated a CSN and Authorisation Code if your application is accepted.

C. APPLICATION PAYMENT

Enter the dollar amount of Notes you wish to apply for: NZ\$ _____

Choose **ONE** of the payment options below by ticking the box next to your selected option.

The minimum amount of Notes you can apply for is NZ\$5,000 and in multiples of NZ\$1,000 thereafter.

Option 1: One-time direct debit from the following bank account:

Bank Branch No. Account No. Suffix

Account Holder Name: _____

Name of bank: _____

Option 2: Attached cheque for the full dollar amount of Notes applied for, made payable to "IAG Note Offer".

Option 3: Settle through the NZClear System.

NZClear Mnemonic: Trade with CISL90

D. INTEREST AND PRINCIPAL PAYMENTS

Choose **ONE** of the **INTEREST PAYMENT options** below by ticking the box next to your selected option.

Option 1: Pay interest directly into the **bank account provided in Section C above.**

Or you can choose an alternate bank account for interest:

Bank Branch No. Account No. Suffix

Account Holder Name: _____

Name of bank: _____

Option 2: Pay interest directly into a **Cash Management Account.**

Name of NZX Firm where Cash Management Account is held: _____

Cash Management Client Account number

E. IRD NUMBER AND TAX DEDUCTION RATE

IRD number (only one IRD number is required in respect of a joint application):

If you are a New Zealand tax resident or carry on business in New Zealand through a fixed establishment in New Zealand, please elect a RWT Rate by ticking one of the boxes below:

10.5% 17.5% 28% (Companies Only)

30% 33% Exempt – Tick this box if you hold a RWT exemption certificate and attach a copy of the certificate

Please tick this box if your application is a joint application by a resident for New Zealand tax purposes and a non-resident for New Zealand tax purposes who does not carry on business in New Zealand through a fixed establishment in New Zealand.

Please tick this box if you are non-resident for New Zealand tax purposes.

Country of tax residence: _____

F. ELECTRONIC COMMUNICATIONS

I wish to receive all Holder communications via email: Email: _____

G. SIGNATURE

Confirmations

By signing this application form:

1. You agree to apply for the Notes subject to the terms and conditions set out in the PDS, this application form and the Trust Deed.
2. You have read and understood the PDS.
3. You declare that all the details and statements made by you in this application form are complete and accurate and you are authorised to disclose this information.
4. You warrant that you received this offer in New Zealand and you are eligible to participate in the offer or you are an investor in a jurisdiction where the Notes may be lawfully offered in compliance with all applicable laws and regulations. You agree to indemnify IAG, the Arranger, the Joint Lead Managers, the Co-Managers and their respective directors, officers, employees and agents in respect of any loss, cost, liability or expense sustained or incurred by any of them as a result of you breaching that warranty or the selling restrictions described in the PDS.

Signature: _____ Date: _____

Signature: _____ Date: _____

Signature: _____ Date: _____

H. CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY / AGENT

Please tick the box below:

If you are acting on behalf of the applicant for whom you have power of attorney; or

If you are acting as agent on behalf of the applicant.

I, _____ (full name)

of _____ (place and country of residence)

_____ (occupation), certify:

That by deed / agency agreement dated _____ (date of instrument creating the power of attorney)

_____ (full name of person/body corporate which appointed you)

of _____ (place and country of residence of person/body corporate which appointed you)*

Appointed me _____ (his/her/its) attorney/agent;

That I have executed the application for Notes printed on this application form under that appointment and pursuant to the powers thereby conferred on me; and

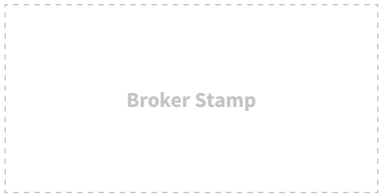
That I have not received any notice or information of the revocation of my appointment as attorney/agent.

Signed at: _____ (location where signed)

Date: _____

Signature of attorney/agent: _____

* If a donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.



Application Form – Re-Investment Offer

This application form is issued with the Product Disclosure Statement (PDS) dated 9 May 2016 for the offer by Insurance Australia Group Limited (IAG) of unsecured subordinated convertible notes (Notes). This application form represents an offer to **reinvest** the face value of part or all of your existing investment in the IAG 2011 NZ\$ Bonds in the Notes described in the PDS. Capitalised terms used in this application form have the same meaning given to those terms in the PDS. You should read and understand the PDS before completing your application. An application will constitute an irrevocable offer by the applicant to subscribe for and acquire the dollar amount of Notes specified on this application form (or such lesser amount which IAG may determine) on the terms and conditions set out in the PDS, the Trust Deed and this application form. An application cannot be withdrawn or revoked by the applicant once it has been submitted.

A. APPLICANT DETAILS AND INFORMATION

Title: _____ First name(s): _____ Surname: _____

Title: _____ First name(s): _____ Surname: _____

Title: _____ First name(s): _____ Surname: _____

Company/Trust/Account Designation (if applicable): _____

Contact details

Street address or PO Box: _____ Suburb/Town: _____

City: _____ Postcode: _____ Country: _____

Mobile: _____ Daytime: _____

B. COMMON SHAREHOLDER NUMBER (CSN)

Please enter your CSN or Holder Number:

C. RE-INVESTMENT OFFER OPTIONS

Choose **ONE** of the re-investment options below by ticking the box next to your selected option.

The minimum amount of Notes you can apply for is NZ\$5,000 and in multiples of NZ\$1,000 thereafter.

Option 1: Re-invest all existing 2011 NZ\$ Bonds:
I/We choose to re-invest ALL of my/our 2011 NZ\$ Bonds
Enter the dollar amount of Notes you wish to apply for: NZ\$ _____

Option 2: Re-invest all 2011 NZ\$ Bonds and apply for additional Notes:
I/We choose to re-invest ALL of my/our 2011 NZ\$ Bonds and wish to apply for additional Notes.
Enter the dollar amount of Notes you wish to apply for: NZ\$ _____

If you choose to purchase additional Notes, and you wish to pay by cheque, please return this document together with a cheque for the additional amount made payable to "IAG Note Offer".

Alternatively, if you wish to pay by direct debit, please complete the 'New Zealand Dollar Bank Account Details for Direct Debit' section below.

You may choose only **ONE** of the payment options:

One-time direct debit from the following bank account.
Bank Branch No. Account No. Suffix

Account Holder Name: _____

Name of bank: _____

Option 3: Re-invest a portion of existing 2011 NZ\$ Bonds:
I/We choose to re-invest only the following NZ\$ face value of my/our 2011 NZ\$ Bonds, with the balance to remain on issue per the existing terms of the 2011 NZ\$ Bonds.
Enter the dollar amount of your 2011 NZ\$ Bond you wish to re-invest in Notes: NZ\$ _____

Note: The Face Value of 2011 NZ\$ Bonds you continue to hold must be a multiple of \$1,000 and must not be less than \$5,000.

D. INTEREST AND PRINCIPAL PAYMENTS

Choose **ONE** of the **INTEREST PAYMENT options** below by ticking the box next to your selected option.

Note: Selecting an option other than Option 1 will change the interest payments settlement instructions for all Notes

Option 1: Use the same payment options used for the current 2011 NZ\$ Bonds

Option 2: Pay interest directly into the **bank account provided in Section C above.**

Or you can choose an alternate bank account for interest:

Bank Branch No. Account No. Suffix

Account Holder Name: _____

Name of bank: _____

Option 3: Pay interest directly into a **Cash Management Account.**

Name of NZX Firm where Cash Management Account is held: _____

Cash Management Client Account number

E. IRD NUMBER AND TAX DEDUCTION RATE

Use existing Note IRD and Tax Deduction rates

IRD number (only one IRD number is required in respect of a joint application):

If you are a New Zealand tax resident or carry on business in New Zealand through a fixed establishment in New Zealand, please elect a RWT Rate by ticking one of the boxes below:

10.5% 17.5% 28% (Companies Only)

30% 33% Exempt – Tick this box if you hold a RWT exemption certificate and attach a copy of the certificate

Please tick this box if your application is a joint application by a resident for New Zealand tax purposes and a non-resident for New Zealand tax purposes who does not carry on business in New Zealand through a fixed establishment in New Zealand.

Please tick this box if you are non-resident for New Zealand tax purposes

Country of tax residence: _____

F. ELECTRONIC COMMUNICATIONS

I wish to receive all Holder communications via email: Email: _____

G. SIGNATURE

Confirmations

By signing this application form:

1. You agree to apply for the Notes subject to the terms and conditions set out in the PDS, this application form and the Trust Deed.
2. You have read and understood the PDS.
3. You declare that all the details and statements made by you in this application form are complete and accurate and you are authorised to disclose this information.
4. You warrant that you received this offer in New Zealand and you are eligible to participate in the offer or you are an investor in a jurisdiction where the Notes may be lawfully offered in compliance with all applicable laws and regulations. You agree to indemnify IAG, the Arranger, the Joint Lead Managers, the Co-Managers and their respective directors, officers, employees and agents in respect of any loss, cost, liability or expense sustained or incurred by any of them as a result of you breaching that warranty or the selling restrictions described in the PDS.

Signature: _____ Date: _____

Signature: _____ Date: _____

Signature: _____ Date: _____

H. CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY / AGENT

Please tick the box below:

If you are acting on behalf of the applicant for whom you have power of attorney; or

If you are acting as agent on behalf of the applicant.

I, _____ (full name)

of _____ (place and country of residence)

_____ (occupation), certify:

That by deed / agency agreement dated _____ (date of instrument creating the power of attorney)

_____ (full name of person/body corporate which appointed you)

of _____ (place and country of residence of person/body corporate which appointed you)*

Appointed me _____ (his/her/its) attorney/agent;

That I have executed the application for Notes printed on this application form under that appointment and pursuant to the powers thereby conferred on me; and

That I have not received any notice or information of the revocation of my appointment as attorney/agent.

Signed at: _____ (location where signed)

Date: _____

Signature of attorney/agent: _____

* If a donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

