

SCHEDULE 1

TERMS AND CONDITIONS OF THE BONDS

*The following are the terms and conditions of the Bonds (the **Conditions**)*

The \$250,000,000 Fixed Rate Subordinated Bonds due 2036 (the **Bonds**) of Insurance Australia Group Limited (the **Issuer**) are issued subject to and with the benefit of a master trust deed dated 4 November 2011 entered into between the Issuer and The New Zealand Guardian Trust Company Limited as trustee (the **Trustee**), the supplemental trust deed dated 4 November 2011 between the Issuer and the Trustee (and to which these Conditions are appended) and an Agency Agreement dated 22 December 2003 entered into between the Issuer and Computershare Investor Services Limited as registrar and paying agent (**Agent**) as amended by way of an amendment agreement dated 4 November 2011.

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In these Conditions, unless the context requires otherwise terms and expressions have the meanings given in the Master Trust Deed or the Supplemental Deed and:

Additional Amounts has the meaning given in Condition 7.2.

Additional Interest Amounts has the meaning given in Condition 4.7.

Agent means Computershare Investor Services Limited, or any successor appointed pursuant to the Agency Agreement..

Agency Agreement means the agreement of that name dated 22 December 2003 entered into between the Issuer and the Agent as registrar and paying agent as amended by way of an amendment agreement dated 4 November 2011.

Approved Issuer Levy means, in relation to any payment of interest (as defined in section 86F of the Stamp and Cheque Duties Act 1971) under any Bond, the levy payable by the Issuer in accordance with Section 86J of the Stamp and Cheque Duties Act 1971.

APRA means the Australian Prudential Regulation Authority as constituted under the Australian Prudential Regulation Authority Act 1998 of Australia.

Arrears of Interest has the meaning given in Condition 4.6.

Authorised Representative means any person that is a director or secretary of the Issuer or any other person appointed by the Issuer as an authorised representative of the Issuer for the purposes of the Bonds.

Benchmark Rate means the rate per annum (expressed on a percentage yield basis rounded, if necessary, to the nearest two decimal places with five being rounded up) which is determined by the Issuer by reference to the mid market swap rate for a five-year term, being the mean of the bid and offered swap rates as displayed on Reuters page ICAPAUKIWISWAP or its successor page at or about 3pm on the Rate Set Date or Rate Reset Date (as applicable) (adjusted as necessary to a quarterly rate), or, if a rate is unable to be determined in that manner or if the Issuer forms the view

that the rate so determined is not an accurate reflection of market rates, by reference to the mean (rounded if necessary to the nearest two decimal place with five being rounded up) of the bid and offered swap rates, in either case adjusted as necessary to a quarterly rate) quoted by four Reference Banks at or about 3pm on the Rate Set Date or Rate Reset Date (as applicable) for a five-year interest rate swap.

Bonds means the fixed rate subordinated bonds issued or to be issued pursuant to these Conditions.

Business Day means a day other than a Saturday or Sunday on which registered banks are open for general business in Auckland and Wellington and NZDX is open for trading.

Conditions means these terms and conditions.

Corporations Act means the Corporations Act 2001 of Australia.

Deferred Interest Amount means any Interest Amount the payment of which has been deferred by the Issuer in accordance with Condition 4.5 and constituting Arrears of Interest and which remains unpaid.

Early Redemption Amount means, in relation to a Bond to be redeemed prior to its Maturity Date, the Principal Amount of the Bond together with any accrued but unpaid interest on the Bond to the date on which the Bond is to be redeemed, including any Deferred Interest Amount and Additional Interest Amounts payable in accordance with Condition 4.6 (without double counting).

Early Redemption Amount (Make-whole) means, in relation to a Bond to be redeemed prior to its Maturity Date, the higher of the Early Redemption Amount and the amount calculated by the Issuer as being the Market Value of that Bond, where **Market Value** means:

- (a) the price (rounded to the nearest full cent) as calculated by reference to the average of the daily volume weighted average market yield of the Bonds sold on NZDX during the 10 Business Days prior to the twentieth Business Day before the relevant Early Redemption Date, excluding any "crossing" transacted outside the open session or any "special crossing" transacted at any time outside New Zealand; or
- (b) if the Bonds have not traded on NZDX for at least half of such 10 Business Day period, the current market value of that Bond determined by an independent adviser with reference to bids from four Reference Banks (such independent adviser having been appointed in accordance with the Master Trust Deed and notified to the Issuer prior to the sixteenth Business Day before the relevant Early Redemption Date (or such other date as the Issuer may approve)),

including any accrued but unpaid interest on the Bond to the date on which the Bond is to be redeemed, including any Deferred Interest Amount and Additional Interest Amounts payable in accordance with Condition 4.6 (without double counting).

Early Redemption Date means the date on which a Bond is to be redeemed under Conditions 5.2, 5.3, 5.4 5.5 or 8.2.

Event of Default means any event specified in Condition 8.1.

First Interest Payment Date means 15 March 2012.

Group means the Issuer and its Subsidiaries.

Holder means, in relation to a Bond at any time, the person whose name is recorded in the Register as the holder of the Bond at that time.

Interest Amount means the amount of interest payable on the Bonds, and for the avoidance of doubt, includes any Deferred Interest Amount and any Additional Interest Amount.

Interest Payment Date means, in relation to each Bond, each date for the payment of interest in respect of that Bond, being:

- (a) the First Interest Payment Date;
- (b) thereafter each 15 of June, September, December and March of each year prior to the Maturity Date; and
- (c) the Maturity Date or, if the Issuer exercises its rights under Conditions 5.2, 5.3, 5.4, 5.5 or 8.2, the Early Redemption Date,

provided that if any such date is not a Business Day it shall be postponed to the next Business Day.

Interest Period means each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date provided that the first Interest Period commences on (and includes) the Issue Date and ends on (but excludes) the first Interest Payment Date and the final Interest Period commences on (and includes) the penultimate Interest Payment Date and ends on (but excludes) the Maturity Date.

Interest Rate means, in relation to a Bond, the interest rate used to determine the interest payable in respect of the Bond in accordance with Condition 4.

Issue Date means 15 December 2011, being the date of the initial issue of the Bonds.

Junior Securities means any class of the Issuer's share capital together with any other securities of any member of the Group ranking or expressed to rank junior to the Bonds either issued directly by the Issuer or, where issued by a Subsidiary, where the terms of the securities benefit from a guarantee or support agreement entered into by the Issuer which ranks or is expressed to rank junior to the Bonds.

Make-whole means the amount, inclusive of fees, as calculated in accordance with the Early Redemption Amount (Make-whole).

Margin means, in relation to a Bond, the rate expressed as a percentage per annum announced by the Issuer on or before the first date of the offer period for the Bonds, expected to be 16 November 2011 or such other date as the Issuer may determine.

Master Trust Deed means the master trust deed dated 4 November 2011 entered into between the Issuer and Trustee.

Maturity Date means 15 December 2036.

Minimum Interest Rate means the rate expressed as a percentage per annum announced by the Issuer on or before the first date of the offer period for the Bonds, expected to be 16 November 2011 or such other date as the Issuer may determine.

Minimum Holding means Bonds with an aggregate Principal Amount of \$5,000.

NZD or **\$** means the lawful currency of New Zealand.

NZDX means the market operated by NZX on which listed debt securities are traded.

NZX means NZX Limited.

Optional Interest Payment Date means any Interest Payment Date where:

- (a) (i) a Regulatory Intervention has occurred on such date or has occurred prior to such Interest Payment Date and is continuing on such Interest Payment Date or, as determined by two directors of the Issuer and certified to the Trustee, is reasonably likely to occur as a result of making the payments of interest due on the Bonds on such Interest Payment Date; and
- (ii) no interest payments or payments in respect of interest have been made on any Junior Securities or Parity Securities (excluding any Junior Securities or Parity Securities the terms of which do not enable the issuer of the relevant securities to defer, pass on or eliminate the relevant interest payment) and no dividend or other distribution on any class of the Issuer's share capital has been paid or become payable since the date of the commencement of that Regulatory Intervention; or
- (b) no interest payments or payments in respect of interest have been made on any Junior Securities or Parity Securities (excluding any Junior Securities or Parity Securities the terms of which do not enable the issuer of the relevant securities to defer, pass on or eliminate the relevant interest payment) during the financial year of the Issuer in which such Interest Payment Date falls, and no dividend or other distribution (including a return of capital) on any class of the Issuer's share capital has been paid or has become payable during the twelve (12) months prior to (but excluding) that Interest Payment Date.

Parity Securities means any securities of the Issuer together with any other securities of any member of the Group ranking or expressed to rank pari passu with the Bonds, either issued directly by the Issuer or, where issued by a Subsidiary, where the terms of the securities benefit from a guarantee or support agreement entered into by the Issuer which ranks or is expressed to rank pari passu with the Bonds.

Principal Amount means, in relation to a Bond, the amount (other than interest) payable on redemption or repayment of that Bond, being the amount recorded as such in the Register in respect of that Bond.

Rate Reset Date means 15 December 2016 and each five-year anniversary of that date, provided that if any such date is not a Business Day it shall be postponed to the next Business Day.

Rate Set Date means 13 December 2011 or such other date, being a Business Day, as the Issuer may select.

Record Date means, in relation to a payment due on a Bond, the tenth calendar day before the relevant Interest Payment Date or the Maturity Date or Early Redemption Date.

Reference Banks means ANZ National Bank Limited, ASB Bank Limited, Bank of New Zealand and Westpac Banking Corporation, or any other major bank engaged in the New Zealand interbank market as selected by the Issuer, provided that, once a Reference Bank has been selected by the Issuer, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such.

Reference Date means the date which is three Business Days prior to the date of notice of redemption.

Register means the register kept in respect of the Bonds and maintained by the Agent.

Regulated Subsidiary means any entity engaged in the insurance business and regulated as such by a Relevant Supervisory Authority, in which the Issuer directly or indirectly holds 20 per cent. or more of the voting rights or share capital.

Regulatory Intervention means:

- (a) with respect to the Issuer, a request from APRA or any Relevant Supervisory Authority to restore or improve any applicable minimum or notional margin of solvency or capital adequacy levels of the Issuer; or
- (b) a request to a Regulated Subsidiary by its Relevant Supervisory Authority to restore either its applicable minimum or notional margin of solvency or capital adequacy levels or a notification to APRA by a Relevant Supervisory Authority that such Relevant Supervisory Authority has made such request to the Regulated Subsidiary; or
- (c) if:
 - (i) prior to any date on which a payment in respect of interest in respect of the Bonds is due; or
 - (ii) on any date on which a payment in respect of interest in respect of the Bonds is due, the Issuer or a Regulated Subsidiary has failed (or (in the case of (ii)) is reasonably likely to so fail immediately after such payment) to meet its applicable minimum or notional margin of solvency or capital adequacy levels as at the later of (A) the date of the most recent audited accounts of the Issuer or, as the case may be, the Regulated Subsidiary or, (B) the date such levels were most recently tested for regulatory purposes, or (C) any date selected by the board of directors (or other management body) of the Issuer or, as the case may be the Regulated Subsidiary, falling on or prior to the date such payment is, or otherwise would be, due.

A **Regulatory Intervention** is deemed to be continuing until such date as, in the case of (a) or (b), the relevant margins of solvency or capital adequacy levels have been restored or improved to the satisfaction of the Relevant Supervisory Authority or the request is otherwise withdrawn or addressed to the satisfaction of the Relevant Supervisory Authority or, in the case of (c), the first date on which the Issuer or Regulated Subsidiary, as applicable, meets its applicable minimum or notional margin of solvency or, as the case may be, capital adequacy levels, as determined and so certified to the Trustee by two directors of the Issuer.

Related Body Corporate means a related body corporate as defined in the Corporations Act.

Relevant Date means, in respect of any payment to be paid by the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Agent on or prior to such date, the Relevant Date means the date on which, the full amount of such moneys having been so received, notice to that effect has been given to the Holders by the Issuer in accordance with Condition 12.

Relevant Supervisory Authority means any regulator having jurisdiction over the Issuer or the Group, on a consolidated basis, or any Regulated Subsidiary from time to time.

RES means the A\$550,000,000 perpetual reset exchangeable securities issued by IAG Finance (New Zealand) Limited (ABN 97 111 268 243) (as amended).

RES Holder means, at any time, a person whose name is registered as the holder of a RES.

RES Terms means the terms of issue of the RES as set out in the RES Trust Deed.

RES Trust Deed means the Amended and Restated Trust Deed amended and restated with effect from 15 December 2009 between IAG Finance (New Zealand) Limited (acting through its branch in Auckland, New Zealand) (ABN 97 111 268 243), IAG and Trust Company Fiduciary Services Limited (formerly Permanent Trustee Company Limited) (ABN 21 000 000 993).

Senior Creditors means all creditors of the Issuer whose claims would be entitled to be admitted in the winding up of the Issuer, other than:

- (a) the Holders and holders of the £250,000,000 Fixed/Floating Rate Subordinated Notes of the Issuer due 2026;
- (b) creditors whose claims rank or are expressed to rank *pari passu* with the claims of the Holders in connection with the Bonds (which includes all creditors, present or future, to whom the Issuer is indebted) where the terms of such indebtedness:
 - (i) provide that such indebtedness will become due and payable on a specified or determinable date or at the end of a specified or determinable period, and that in the event of a liquidation or irrevocable winding up of the Issuer, the claims of those creditors against the Issuer will be, or are expressed to be, subordinated in right of payment to the claims of all non-subordinated creditors of the Issuer; and
 - (ii) do not provide that in the event of a liquidation or irrevocable winding up of the Issuer, the claims of those creditors against the Issuer will rank, or are expressed to rank, ahead of the claims of any other subordinated creditors of the Issuer to whom the Issuer is indebted on terms which conform to the foregoing description; and
- (c) creditors whose claims against the Issuer rank, or are expressed to rank, after the claims of the Holders in connection with the Bonds (which includes all creditors, present and future, to whom the Issuer is indebted where the terms of such indebtedness provide that such indebtedness is undated or perpetual or otherwise of no fixed or determinable maturity, and that in the event of a liquidation or irrevocable winding up of the Issuer the claims of those creditors against the Issuer will be, or are expressed to be, subordinated in right of payment to the claims of all non-subordinated creditors of the Issuer and any or all of the creditors of the Issuer referred to in (b) above).

Solvent means, in relation to the Issuer:

- (a) that the Issuer is able to pay its debts as they fall due; and
- (b) that the non-consolidated gross assets of the Issuer (as shown by the then most recent publicly available accounts of the Issuer but adjusted for events subsequent to the date of such accounts in such manner and to such extent as the directors or, as the case may be, the liquidator of the Issuer may determine to be appropriate) exceed its non-consolidated gross liabilities (as shown by the then most recent publicly available accounts of the Issuer but adjusted for contingencies and for events subsequent to the date of such accounts in such

manner and to such extent as the directors or, as the case may be, the liquidator of the Issuer may determine to be appropriate).

Subsidiary means a subsidiary as defined in section 46 of the Corporations Act.

Supplemental Deed means the supplemental trust deed No. 1 dated 4 November 2011 between the Issuer and the Trustee (and to which these Conditions are appended).

Tax Act means the Income Tax Assessment Acts of 1936 and 1997 of Australia.

Tax Resident means resident in New Zealand for tax purposes or engaged in business in New Zealand through a fixed establishment in New Zealand, and “Non-Tax Resident” shall be construed accordingly.

Winding Up means:

- (a) an order is made by a State or Federal Court in the Commonwealth of Australia for the winding up of the Issuer; or
- (b) an effective resolution is passed by shareholders or members of the Issuer for the winding-up of the Issuer.

Winding Up Default means an event described in Condition 8.1(c).

1.2 Interpretation

In these Conditions, headings and bold type are for convenience only and do not affect the interpretation of these Conditions and, unless the context otherwise requires:

- (a) words importing the singular include the plural and vice versa;
- (b) words importing a gender include any gender;
- (c) other parts of speech and grammatical forms of a word or phrase defined in these Conditions have a corresponding meaning;
- (d) an expression suggesting or referring to a natural person or an entity includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency;
- (e) a reference to any thing (including any right) includes a part of that thing but nothing in this Condition 1.2(e) implies that performance of part of an obligation constitutes performance of the obligation;
- (f) a reference to a Condition of a specified number is a reference to a provision of these Conditions having that number;
- (g) a reference to a statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances or by-laws amending, consolidating or replacing it, whether passed by the same or another government agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws under that statute;

- (h) a reference to a Condition or a document includes all amendment or supplements to, or replacements or novations of, that document;
- (i) a reference to a particular person includes that person's successors and permitted assigns;
- (j) a reference to a body (including APRA or any other institute, association or authority but excluding the Issuer, an Agent or a Holder), whether statutory or not:
 - (i) which ceases to exist; or
 - (ii) whose powers or functions are transferred to another body,is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

2 FORM, DENOMINATION AND TITLE

2.1 Form and denomination

The Bonds are in registered book entry form, have a face value of \$1.00 per Bond with a minimum subscription of \$5,000 and multiples of \$1,000 thereafter.

2.2 Title

Title to the Bonds shall be determined solely by reference to the Register. The Holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment on the Bond is overdue and regardless of any notice of ownership, trust or any interest in respect of that Bond) and no person will be liable for so treating the Holder.

3 STATUS AND SUBORDINATION

3.1 Status

The Bonds are direct, subordinated and unsecured obligations of the Issuer and rank:

- (a) equally amongst themselves;
- (b) equally with:
 - (i) the claims of holders of the £250,000,000 Fixed/Floating Rate Subordinated Notes of the Issuer due 2026 in respect of those Notes; and
 - (ii) all other creditors whose claims against the Issuer rank or are expressed to rank equally with the Holders' claims for amounts owing by the Issuer in connection with the Bonds;
- (c) behind:
 - (i) all obligations to Senior Creditors or obligations mandatorily preferred by law; and
 - (ii) all other creditors whose claims against the Issuer rank or are expressed to rank ahead of the Holders' claims for amounts owing by the Issuer in connection with the Bonds;

- (d) ahead of:
 - (i) the claims of any holder of a preference share issued by the Issuer on exchange of the RES or the claims of any RES Holder against the Issuer under the RES Terms and the RES Trust Deed in respect of the RES if the Issuer fails to issue a preference share when required to do so in accordance with the RES Terms;
 - (ii) any claims on the Issuer in respect of the A\$350,000,000 perpetual reset preference shares issued according to a prospectus dated 6 May 2002; and
 - (iii) all shareholders and all other creditors whose claims against the Issuer rank, or are expressed to rank, after the claims of the Holders in connection with the Bonds.

3.2 Subordination

The rights and claims of the Holders against the Issuer in respect of payments under the Bonds are subordinated to the claims of the Senior Creditors. Accordingly, if no Winding Up of the Issuer has occurred:

- (a) the obligations of the Issuer to make payments of principal and interest and all other amounts due in respect of the Bonds (including, without limitation, Additional Amounts, Deferred Interest Amounts and Additional Interest Amounts) are conditional upon the Issuer being Solvent at the time of payment by the Issuer; and
- (b) no payment of principal, interest or other amounts due under the Bonds may be made except to the extent that the Issuer may make such payment and still be Solvent immediately thereafter.

Any amount not paid due to this Condition 3.2 accumulates and remains a debt owing to the Holder by the Issuer until it is paid and shall be payable on the first date on which this Condition 3.2 would not apply (whether or not such date is otherwise a payment date).

3.3 Certificate as to Solvency

A certificate as to whether the Issuer is Solvent signed by:

- (a) two Authorised Representatives of the Issuer; or
- (b) the auditors of the Issuer; or
- (c) on a Winding Up of the Issuer, the Issuer's liquidator,

is, in the absence of manifest error, conclusive evidence against a Holder of the matters certified. In the absence of such certificate, a Holder is entitled to assume (unless the contrary is proved) that the Issuer is and will, after any payment as aforesaid, be Solvent.

3.4 Winding up

- (a) If a Winding Up of the Issuer has occurred:
 - (i) a Holder's entitlement in the Winding Up to the principal, interest and other amounts due in respect of the Bonds is subordinated and postponed and subject in right of payment to payment in full of the claims of the Senior Creditors; and

- (ii) a Holder may only prove in the Winding Up for such amounts as a debt which is subject to prior payment in full of the Senior Creditors, and until the Senior Creditors have been paid in full, the Holder must not claim in the Winding Up in competition with the Senior Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior Creditors would have been entitled to receive.
- (b) Each Holder waives to the fullest extent permitted by law any right to prove in any Winding Up of the Issuer as a creditor ranking for payment in any other manner.

The Trustee and each Holder acknowledge that on a Winding Up of the Issuer, there may be no surplus assets available to meet the claims of the Holders after the claims of the parties senior to the Holders (as provided in this Condition 3) have been satisfied.

The Trustee and each Holder must not exercise their voting rights as an unsecured creditor in a Winding Up or administration of the Issuer to defeat the subordination in this Condition 3.

The Trustee and each Holder irrevocably acknowledges and agrees that the debt subordination effected by this Condition 3 is not affected by any act or omission of the Issuer or a Senior Creditor which might otherwise affect it at law or in equity.

The Trustee and each Holder irrevocably and unconditionally acknowledges and agrees that it must pay or deliver to the liquidator any amount or asset received on account of the relevant Holder's claim in the Winding Up of the Issuer in connection with a Note in excess of the relevant Holder's entitlement under Condition 3.4(a).

Nothing in this Condition 3 shall be taken to require the consent of any Senior Creditor to any amendment of this Condition 3.

3.5 No set-off

A Holder may not set-off against any amounts due in respect of the Bonds held by that Holder any amount owed by that Holder to the Issuer, whether in any account, in cash, or any deposits of, advances from or debts to the Issuer, nor is any Holder entitled to effect any reduction of the amount due to that Holder in respect of a Bond by merger of accounts or lien or the exercise of any other rights the effect of which is or may be to reduce the amount due in respect of a Bond. The Issuer may not exercise any right of set-off against a Holder in respect of any claim by that Holder against the Issuer.

3.6 Debt subordination

The Trustee and each Holder irrevocably and unconditionally acknowledges and agrees that this Condition 3 is a debt subordination for the purposes of section 563C of the Corporations Act.

4 INTEREST

4.1 Interest payments

(a) *Interest*

The Bonds bear interest from and including the Issue Date in accordance with the provisions of this Condition 4.

Interest is payable on the Bonds at the prevailing Interest Rate quarterly in arrears on each Interest Payment Date, as provided in this Condition 4.

(b) *Interest Rate from the Issue Date to the first Rate Reset Date*

The interest rate for each Interest Period up to (but excluding) the first Rate Reset Date, will be fixed on the Rate Set Date at the rate which is the greater of:

- (i) the Minimum Interest Rate; and
- (ii) the sum of:
 - (A) the Margin; and
 - (B) the Benchmark Rate on the Rate Set Date.

(c) *Interest Rate Resetting*

The interest rate for each Interest Period from (and including) the first Rate Reset Date will be fixed on the relevant Rate Reset Date at a rate equal to the aggregate of:

- (i) the Margin; and
- (ii) the Benchmark Rate on that Rate Reset Date.

(d) *Calculation of interest due on Interest Payment Dates*

The Interest Amount payable on each Bond in respect of each Interest Payment Date shall be equal to the Interest Rate per annum on the Principal Amount of that Bond divided by 4.

(e) *Interest in respect of a period other than an Interest Period*

Where it is necessary to compute an amount of interest in respect of any Bond for a period other than a whole Interest Period, such interest shall be calculated on the basis of the actual number of days elapsed and a year of 365 days and rounded to the nearest \$0.01 (\$0.005 being rounded upwards).

(f) *Determinations etc. to be final*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition are (in the absence of wilful default, bad faith or manifest error) final and binding upon all parties.

4.2 Publication of Interest Rate

The Issuer will cause notice of the Interest Rate and the relevant Rate Reset Date from which the Interest Rate will be in effect, to be published to NZDX in accordance with Condition 12 as soon as possible after the relevant determination, but in no event later than the second Business Day thereafter.

4.3 Interest on subscriptions

The Issuer shall pay to each original subscriber for the Bonds (and notwithstanding any transfer of any Bond that may have occurred) interest on the subscription monies for such Bonds at the initial Interest Rate (determined in accordance with Condition 4.1(b)) for the period from the date the subscription monies for such Bonds were credited to the Issuer's account up to and excluding the Issue Date, and shall be paid not later than 5 Business Days after the Issue Date.

4.4 Accrual and payment

Interest due on a Bond in respect of each Interest Period accrues on a daily basis and, subject to Condition 4.6, is payable in arrears on the following Interest Payment Date.

4.5 Optional deferral of interest

- (a) The Issuer may, on any Optional Interest Payment Date, defer the payment of interest on the Bonds which would otherwise be payable on such date.

The Issuer shall notify the Holders (in accordance with Condition 12) as soon as practicable (and in any event within ten Business Days after any Optional Interest Payment Date in respect of which payment is deferred) of (subject as provided below) any Optional Interest Payment Date on which, pursuant to the provisions of this Condition 4.5, the Issuer elects to defer the payment of interest. Notwithstanding the requirements to give notice pursuant to this Condition 4.5, failure to give such notice shall not prejudice the right of the Issuer not to pay interest pursuant to this Condition 4.5.

Subject to Condition 4.6 the Issuer may defer paying interest on each Optional Interest Payment Date until the Maturity Date or any earlier date on which the Issuer re-commences paying interest or the date the Bonds are redeemed in full.

- (b) Notwithstanding any other provision in these Conditions, any payment which for the time being is not made on the Bonds by virtue of Condition 4.5(a) does not constitute a default for any purpose (including, but without limitation, Condition 8) on the part of the Issuer and does not give any Holder the right to accelerate repayment of the Bonds.

4.6 Arrears of interest—optional and compulsory payments

Any interest in respect of the Bonds not paid on an Interest Payment Date by virtue of Condition 4.5(a), together with any other interest in respect of the Bonds not paid on any other Interest Payment Date, so long as the same remains unpaid, constitutes **Arrears of Interest**. Subject to Condition 3, any Arrears of Interest may be paid in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Holders in accordance with Condition 12. Subject to Condition 3, all Arrears of Interest (together with all corresponding Additional Interest Amounts) will automatically become immediately due and payable in whole upon the earliest of the following dates:

- (a) the date on which any interest payment or payment in respect of interest on any Junior Securities or Parity Securities is made (excluding any such payment on any Junior Securities or Parity Securities the terms of which do not enable the issuer of the relevant securities to defer, pass on or eliminate the relevant payment) or on which a dividend or other distribution on any class of the Issuer's share capital is paid or becomes payable;

- (b) the date on which the Issuer notifies the Trustee that no Regulatory Intervention that has occurred is or will be continuing on such date, unless the Issuer is otherwise entitled to defer at such time by virtue of Condition 4.5(a);
- (c) the date on which the Issuer commences and does not abandon a public offer to redeem, purchase or acquire any Junior Securities or Parity Securities;
- (d) the date on which a Winding Up Default occurs; or
- (e) the date fixed for any redemption of Bonds or the date fixed for any purchase of Bonds by or on behalf of the Issuer pursuant to Condition 5 or Condition 8.2(a)(iv).

4.7 Additional Interest Amounts

- (a) Interest will accrue on each amount of Arrears of Interest at the Interest Rate from time to time applicable to the Bonds, and such amount of interest (the **Additional Interest Amount**) will become due and payable pursuant to Condition 4.6 above and shall be calculated by the Issuer:
 - (i) during the period from and including the Issue Date, to (but excluding) the first Rate Reset Date, by applying the Interest Rate to the amount of the Arrears of Interest in accordance with Condition 4.1(b); and
 - (ii) during each Interest Period beginning on or after the first Rate Reset Date, by applying the Interest Rate for the relevant Interest Period to the amount of Arrears of Interest in accordance with Condition 4.1(c).
- (b) All Additional Interest Amounts accrue and are payable on the same basis as interest on a Bond, subject to deferral on the same basis as interest under Condition 4.5(a).
- (c) All Additional Interest Amounts accrued up to any Interest Payment Date and not paid on such Interest Payment Date shall be added, for the purpose only of calculating the Additional Interest Amounts accruing thereafter, to the amount of Arrears of Interest remaining unpaid on such Interest Payment Date.

4.8 Interest on overdue amounts

- (a) The Issuer must pay interest on any amount of principal that is due and payable by it on a Bond but unpaid.
- (b) Interest payable under Condition 4.8(a):
 - (i) accrues from day to day from and including the due date for payment up to the actual date of payment at the interest rate applicable to the Bond on the date the amount fell due; and
 - (ii) must be paid by the Issuer when it pays the overdue amount.

4.9 Cessation of interest payments

Each Bond ceases to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it continues to bear interest in accordance with this Condition 4 (both before and after judgment) until whichever is the earlier of:

- (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Holder; and
- (b) the day seven days after the Agent has notified Holders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

5 REDEMPTION, PURCHASE AND CANCELLATION

5.1 Redemption on Maturity Date

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their Principal Amount on the Maturity Date, together with any accrued but unpaid interest on the Bonds on that date, including any Deferred Interest Amount and Additional Interest Amounts payable in accordance with Condition 4.6 (without double counting).

Any redemption or purchase of a Bond by the Issuer prior to the Maturity Date is subject to the prior written consent of APRA.

5.2 Early redemption for taxation reasons (Additional Amounts)

- (a) If at any time the Issuer would be required to pay any Additional Amounts, the Issuer may (subject to having obtained the prior written consent of APRA and having given notice in accordance with Condition 5.2(b)), redeem all of the Bonds, or all of the Bonds in respect of which the Issuer would be obliged to pay Additional Amounts, at their Early Redemption Amount on any Interest Payment Date.
- (b) The notice referred to in Condition 5.2(a) is a notice given by the Issuer to the Holders whose Bonds are to be redeemed, in accordance with Condition 12, not more than 60 days and not less than 30 days prior to the proposed Early Redemption Date specifying:
 - (i) details of the Bonds to be redeemed;
 - (ii) the Early Redemption Date; and
 - (iii) the Early Redemption Amount.

Notice under this Condition 5.2(c) is irrevocable and on the Early Redemption Date specified the Issuer must redeem the relevant Bonds by payment of their Early Redemption Amount.

- (c) Prior to giving notice of any such redemption, the Issuer must deliver to the Trustee a certificate signed by one of its Authorised Representatives stating that it is entitled to redeem the relevant Bonds and an Additional Amount cannot be avoided by the Issuer taking reasonable measures available to it, and an opinion of independent legal or tax advisers of recognised standing in Australia to the effect that the Issuer would be required to pay an Additional Amount on the next Interest Payment Date.

5.3 Early redemption for taxation reasons (deductibility of interest)

- (a) If at any time:

- (i) the interest payable in respect of the Bonds is not or may not be allowed as a deduction to the Issuer for Australian income tax purposes as a result of a change of law or regulations; or
- (ii) a determination to that effect is made by the Issuer (having received a legal or tax opinion referred to in Condition 5.3(b)) or the Australian Taxation Office,

the Issuer may (subject to having obtained the prior written consent of APRA and having given notice in accordance with Condition 5.3(b)), redeem all but not some of the Bonds at their Early Redemption Amount on any Interest Payment Date.

- (b) The notice referred to in Condition 5.3(a) is a notice given by the Issuer to the Holders in accordance with Condition 12 not more than 60 days and not less than 30 days prior to the proposed Early Redemption Date specifying:
 - (i) details of the Bonds to be redeemed;
 - (ii) the Early Redemption Date; and
 - (iii) the Early Redemption Amount.

Notice under this Condition 5.3(b) is irrevocable and on the Early Redemption Date specified the Issuer must redeem the Bonds by payment of their Early Redemption Amount.

- (c) Prior to giving notice of any such redemption, the Issuer must deliver to the Trustee a certificate signed by one of its Authorised Representatives stating that it is entitled to redeem the Bonds and an opinion of independent legal or tax advisers of recognised standing in Australia to the effect that the interest payments on the Bonds may not be allowed as a deduction for Australian income tax purposes.

5.4 Early redemption for regulatory reasons (Bonds do not qualify, or cease to qualify as Tier 2 Capital)

- (a) If at any time prior to the first Rate Reset Date:
 - (i) a change of applicable laws or regulations has the effect that; or
 - (ii) a determination is made by APRA to the effect that,

the Bonds do not qualify, or cease to qualify as Tier 2 Capital (or its equivalent concept) of the Group (on a consolidated basis) under the standards or guidelines published by APRA as applied to the Group in an amount equal to 100 per cent. of the Principal Amount of the Bonds for the time being outstanding, the Issuer may (subject to having obtained the prior written consent of APRA and having given notice in accordance with Condition 5.4(b)), redeem all but not some only of the Bonds at their Early Redemption Amount (Make-whole) at any time.

- (b) The notice referred to in Condition 5.4(a) is a notice given by the Issuer to the Holders in accordance with Condition 12 not more than 60 days and not less than 30 days prior to the proposed Early Redemption Date specifying:
 - (i) details of the Bonds to be redeemed;

- (ii) the Early Redemption Date; and
 - (iii) the Early Redemption Amount (Make-whole).
- (c) Prior to giving notice of any such redemption, the Issuer must deliver to the Trustee a certificate signed by one of its Authorised Representatives stating that it is entitled to redeem the Bonds under this Condition 5.4.
- (d) Notice under Condition 5.4(b) is irrevocable and on the Early Redemption Date specified the Issuer must redeem the Bonds by payment of their Early Redemption Amount (Make-whole).

5.5 Early redemption at the option of the Issuer

- (a) The Issuer may (subject to having obtained the prior written consent of APRA and having given notice in accordance with Condition 5.5(b)) redeem all (but not some only) of the Bonds on
- (i) each Rate Reset Date at their Early Redemption Amount; or
 - (ii) following the first Rate Reset Date, any Interest Payment Date that is not a Rate Reset Date, at the Early Redemption Amount (Make-whole).
- (b) The notice referred to in Condition 5.5(a) is a notice given by the Issuer to the Holders in accordance with Condition 12 not more than 60 days and not less than 35 days prior to the proposed Early Redemption Date specifying:
- (i) details of the Bonds to be redeemed;
 - (ii) the Early Redemption Date; and
 - (iii) the Early Redemption Amount or the Early Redemption Amount (Make-whole), as applicable.
- (c) Notice under Condition 5.5(b) is irrevocable and on the Early Redemption Date specified the Issuer must redeem the Bonds by payment of their Early Redemption Amount.

5.6 Purchase of Bonds

- (a) The Issuer or any of its Related Bodies Corporate may (subject to having obtained the prior written consent of APRA in the case of the Issuer or any of its Subsidiaries) at any time purchase some or all of the Bonds on the open market, by private contract or otherwise and at any price.
- (b) Bonds purchased by or for the account of the Issuer or any of its Related Bodies Corporate may be held, cancelled or re-sold at the option of the purchaser.

5.7 Cancellation

All Bonds which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Related Bodies Corporate and surrendered for cancellation pursuant to Condition 5.6 above will forthwith be cancelled and accordingly may not be reissued or resold.

6 PAYMENTS

6.1 Payments in respect of Bonds

Payment of the Principal Amount of, and interest on, a Bond (less any amount required under Condition 7.3 to be deducted) will be made by or on behalf of the Issuer:

- (a) in NZD;
- (b) in immediately available funds;
- (c) for value on the date of payment; and
- (d) to the person whose name appears in the Register as the Holder of the Bond on the Record Date in respect of the relevant payment. If more than one person is so named in the Register, payment will be made to the first person so named.

6.2 Method of Payment

A Holder may:

- (a) by written notice to the Agent, request the Agent to make payments in respect of any Bond held by it to a specified bank account; and
- (b) at any time cancel or amend any notice so given.

No such notice, or cancellation or amendment of a notice, will have effect in respect of any payment unless received by the Agent on or before the Record Date for that payment. In the absence of any such notice, payments in respect of each Bond are to be made by posting a cheque to the address of the relevant Holder appearing in the Register. Any notice given under this condition will be taken to be automatically cancelled upon transfer of all or part of a Bond.

6.3 Payments subject to fiscal laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Holders in respect of such payments.

6.4 Overriding precondition to payment

The obligation of the Issuer under these Conditions prior to the occurrence of a Winding Up Default to make payments when due is conditional upon the Issuer being Solvent immediately before and after payment by the Issuer as set out in Condition 3.2.

7 TAXATION

7.1 Payments in gross

Subject to Conditions 7.2 and 7.3, all payments of principal and interest (including any Arrears of Interest and Additional Interest Amounts) by or on behalf of the Issuer in respect of the Bonds shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld

or assessed by or within the Australia or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction of Taxes is required by law (an **Australian Tax Deduction**).

7.2 Additional Amounts

In the event of an Australian Tax Deduction, the Issuer will pay to the Holders such additional amounts (“**Additional Amounts**”) as shall be necessary in order that amounts received by the Holders after such Australian Tax Deduction shall equal the respective amounts of principal or interest which would otherwise have been receivable in respect of the Bonds in the absence of such Australian Tax Deduction; except that the foregoing obligation to pay Additional Amounts shall not apply to any such tax, assessment, other governmental charge or duty:

- (a) which is payable otherwise than by deduction or withholding from payments of principal of or interest on such Bond;
- (b) which is payable by reason of the Holder or beneficial owner having, or having had, some personal or business connection with Australia (other than mere ownership of or receipt of payment under the Bonds or the fact that payments are, or for the purposes of taxation are deemed to be, from sources in, or secured in, Australia);
- (c) which is payable solely by reason of the Holder's or beneficial owner's failure to comply with any certification, identification or other reporting requirement concerning nationality, residence, identity, connection with taxing jurisdiction of the Holder or beneficial owner of such Bond;
- (d) which is an estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other charge;
- (e) which is payable by reason of the Holder or beneficial owner of such Bond being an associate of the Issuer for the purposes of Section 128F of the Income Tax Assessment Act 1936 of Australia (the “**Australian Tax Act**”);
- (f) with respect to any payment of principal of or interest on the Bonds (including original issue discount, if any) by the Issuer to any Holder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or any other beneficial owner would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Bonds; or
- (g) any combination of (a) through (f) above.

7.3 New Zealand withholding taxes

- (a) Unless a Non-Tax Resident Holder notifies the Issuer or the Agent that it elects that non-resident withholding tax be deducted from payments to it instead of Approved Issuer levy (and has not, at least five Business Days prior to the relevant payment, revoked such notice), if the Issuer is lawfully able to apply a 0% rate of New Zealand non-resident withholding tax to any payment of interest (or deemed interest) to the Non-Tax Resident Holder either by payment of Approved Issuer Levy or providing the required information to the appropriate authority and elects to do so, the Issuer, or the Agent on its behalf, shall take such steps as are necessary to apply such 0% rate

(including paying any Approved Issuer Levy or providing any required information to the appropriate authority) and may deduct and retain for its own benefit an amount equal to the amount so paid from the interest (or deemed interest) payable to those Holders in lieu of deducting New Zealand non-resident withholding tax from that payment at the rate otherwise applicable.

- (b) If, pursuant to paragraph (a) above, interest payable to a Non-Tax Resident Holder cannot qualify for a 0% rate of New Zealand non-resident withholding tax or if the Non-Tax Resident Holder has so elected, then New Zealand non-resident withholding tax will be deducted at the applicable rate from payments of interest (or payments deemed by law to be interest) to that Non Tax Resident Holder (including, if applicable, any person who beneficially derives interest under the relevant Bond).
- (c) New Zealand resident withholding tax will be deducted by the Paying Agent from payments of interest (or payments deemed by law to be interest) to any Holder (including, if applicable, any other person who beneficially derives interest under the relevant Bond) who is Tax Resident unless the Holder is able to establish to the satisfaction of the Issuer, or the Agent on its behalf, either by means of an appropriate exemption certificate or otherwise before the Record Date for the relevant payment that no such tax need be deducted.
- (d) The Issuer will not be required to and will not make any additional payment by way of gross-up or otherwise with respect to the deduction or withholding from any payment made in respect of the Bonds under this Condition 7.3. If, in respect of any Bond the Agent or the Issuer becomes liable to make any payment of, or on account of, tax payable by any Holder (including, if applicable, any other person who beneficially derives interest under the relevant Bond), then the Agent and the Issuer shall be indemnified by the relevant Holder in respect of such liability. Any moneys paid by the Agent or the Issuer in respect of such liability may be recovered from the Holder as a debt due to the Agent or the Issuer and may be withheld from any further payments to that Holder. Nothing in this Condition 7.3 will prejudice or affect any other right or remedy of the Agent or the Issuer.
- (e) Deductions or withholdings in respect of taxes will be made at the maximum rates from time to time applicable unless a Holder (or, if applicable, any person who beneficially derives interest under the relevant Bond) provides evidence to the Issuer or the Agent (acceptable to it) that a lesser rate or an exemption is applicable.
- (f) The Issuer and the Agent shall be entitled for the purposes of this Condition 7.3 to rely, without further enquiry, upon any evidence produced or statement made by, or on behalf of, a Holder in relation to that Holder's tax status, tax residency or address, and to regard the Holders entered in the Register as the only beneficial owners of, or the only persons who beneficially derive interest under, the relevant Bonds.

8 EVENTS OF DEFAULT

8.1 Events of Default

It is an Event of Default, whether or not it is within the control of the Issuer, if:

- (a) **failure to pay principal:** the Issuer does not pay any principal, Early Redemption Amount or Early Redemption Amount (Make-whole) due in respect of the Bonds within seven days of its due date;
- (b) **failure to pay interest:** the Issuer does not pay any interest or other amount due in respect of the Bonds within 30 days of its due date;
- (c) **winding up:** a Winding Up occurs other than:
 - (i) in the case of paragraph (a) of the definition of “Winding Up”, where the order is successfully appealed or stayed within 30 days; or
 - (ii) for the purposes of a consolidation, amalgamation, merger or reconstruction (the terms of which have been approved by the shareholders of the Issuer or by a court of competent jurisdiction) under which the continuing or resulting corporation effectively assumes the entire obligations of the Issuer under the Bonds.

Holders should note that if the solvency condition to payment in Condition 3.2 is not satisfied or if the Issuer has elected to defer payment of interest under Condition 4.5, the Issuer is not obliged to make such payment and, accordingly, an Event of Default under Condition 8.1(a) or 8.1(b) cannot occur.

8.2 Consequences of an Event of Default

- (a) If an Event of Default occurs and is continuing, a Holder may:
 - (i) initiate proceedings to recover any amount then due and payable but unpaid on the Bond (subject to the Issuer being able to make the payment and remain Solvent);
 - (ii) initiate proceedings to obtain an order for specific performance of any other obligation under the Bond;
 - (iii) initiate proceedings for the Winding Up of the Issuer; or
 - (iv) if the Event of Default is a Winding Up Default, by notice to the Issuer and the Trustee declare that the Bond must be redeemed immediately for its Early Redemption Amount.
- (b) The Holders may not exercise any other remedies against the Issuer as a consequence of an Event of Default other than as specified in Condition 8.2(a).

If the solvency condition to payment in Condition 3.2 is not satisfied or if the Issuer has elected to defer the payment of interest under Condition 4.5, then the Issuer is not obliged to make payment and, accordingly, an Event of Default under Condition 8.1(a) or 8.1(b) cannot occur. Any amount not paid either due to Condition 3.2 or Conditions 8.1(a) or 8.1(b) remains a debt owing to the Holder by the Issuer until it is paid.

8.3 Master Trust Deed

For the avoidance of doubt, the Events of Default set out in this Condition 8 are the only “Events of Default” in respect of the Bonds and nothing in clause 12 of the Master Trust Deed shall apply to the Bonds.

9 UNCLAIMED PAYMENTS

Any payment made to a Holder in the manner provided in these Conditions which is returned unclaimed and any amount due to a Holder whose address and bank account details are unknown, shall (unless the Agent has in the meantime received notice of a change of address to be entered in the Register) be retained by the Agent to be held by it for the Holder concerned without any liability to invest or pay interest on that amount. Any money not claimed within a period of six months from the original date of payment must be returned to the Issuer. After return of any such payment the Holder shall be entitled to payment upon adducing, to the satisfaction of the Issuer, evidence of that Holder's entitlement. If the amount concerned remains unclaimed six years after the original date of payment, that amount shall become the beneficial property of the Issuer.

10 MEETINGS OF HOLDERS, AND MODIFICATION

10.1 Meetings of Holders

- (a) The Master Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any of the provisions of the Master Trust Deed or Supplemental Deed for the Bonds. Such a meeting may be convened by the Issuer at any time and, if required by Holders holding not less than 10 per cent.] of the aggregate Principal Amount of the Bonds for the time being outstanding, shall be convened.
- (b) Any Extraordinary Resolution duly passed is binding on Holders (whether or not they were present at the meeting at which such resolution was passed).

10.2 Modification

The Issuer and the Trustee may agree, with the prior approval of APRA, if required, but without the consent of the Holders, to any modification of any of these Conditions or any of the provisions of the Master Trust Deed or Supplemental Deed for the Bonds either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Holders. Any modification shall be binding on the Holders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Holders as soon as practicable thereafter in accordance with Condition 12.

11 FURTHER ISSUES

The Issuer may from time to time without the consent of the Holders create and issue further securities upon such terms as the Issuer may determine at the time of their issue.

12 NOTICES

Notices to the Holders shall be made to them by way of a duly published NZX announcement. Alternatively, notices may be published in a daily newspaper having general circulation in New Zealand (which is expected to be the New Zealand Herald).

Any such notice will be deemed to have been given on the date of release, circulation or publishing of that notice or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

13 GOVERNING LAW

13.1 Governing law

The Bonds are governed by and construed in accordance with New Zealand law, except that the interpretation of the provisions in Condition 3 are governed by and construed in accordance with the laws of New South Wales, Australia.

13.2 Jurisdiction

The Issuer has irrevocably agreed for the benefit of the Holders that the courts of New Zealand are to have exclusive jurisdiction to settle any legal proceedings which may arise out of or in connection with the Bonds and accordingly has submitted to the exclusive jurisdiction of the New Zealand courts. The Issuer waives any objection to the courts of New Zealand on the grounds that they are an inconvenient or inappropriate forum.

The Holders may take any suit, action or proceeding arising out of or in connection with the Bonds respectively (together referred to as **Proceedings**) against the Issuer in any other court of competent jurisdiction and may take concurrent Proceedings in any number of jurisdictions.

13.3 Agent for service of process

The Issuer hereby irrevocably and unconditionally appoints IAG New Zealand Limited at its registered office for the time being as its agent for service of process in New Zealand in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will promptly appoint another person for such purpose and notify the Holders of such appointment in accordance with Condition 12. Nothing in the Conditions affects the right to serve process in any other manner permitted by law.