



# INDICATIVE TERMS SHEET

## For an issue of NZ\$325m Subordinated Bonds

|                               |   |
|-------------------------------|---|
| <b>ISSUER</b>                 | Insurance Australia Group Limited   |
| <b>STATUS</b>                 | The principal and interest amounts of the bonds (Bonds) will be unsecured, subordinated, obligations of the Issuer  |
| <b>SUBORDINATION</b>          | 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   |
| <b>PURPOSE</b>                | The Bonds are to be issued as part of the Group's normal capital management strategy. The net proceeds of the Bonds will be used for general corporate purposes and may be used to refinance existing borrowings of IAG and the Group             |
| <b>ISSUER CREDIT RATING</b>   | A+ Standard & Poor's  |
| <b>ISSUE CREDIT RATING</b>    | A- Standard & Poor's  |
| <b>EQUITY CREDIT</b>          | The bonds receive intermediate equity credit from Standard & Poor's until the First Call Date and nil thereafter  |
| <b>ISSUE AMOUNT</b>           | NZ\$325 million   |
| <b>INTEREST RATE</b>          | The Interest Rate until the first Call Date will be the Initial Interest Rate. The Interest Rate for subsequent periods will be the sum of the Benchmark Rate on the Rate Reset Date and the original Margin                                      |
| <b>INITIAL INTEREST RATE</b>  | The Initial Interest Rate for the Bonds will be set on the Rate Set Date at the greater of: <ul style="list-style-type: none"> <li>▪ the Benchmark Rate on the Rate Set Date plus the Margin; and</li> <li>▪ the Minimum Interest Rate</li> </ul> |
| <b>MINIMUM INTEREST RATE</b>  | 7.50% per annum   |
| <b>MARGIN</b>                 | 3.78% per annum   |
| <b>CALL DATE</b>              | Thursday, 15 December 2016 and each Interest Payment Date thereafter  |
| <b>MATURITY DATE</b>          | Monday, 15 December 2036  |
| <b>BENCHMARK RATE</b>         | The mid market swap rate for a five year term displayed on Reuters page "ICAPAUKIWISWAP" or its successor page, rounded to 2 decimal places   |
| <b>EARLY BIRD INTEREST</b>    | Interest will be paid from the date cash is paid into the Offer trust account at the Initial Interest Rate  |
| <b>OPENING DATE</b>           | Wednesday, 16 November 2011   |
| <b>CLOSING DATE</b>           | Monday, 12 December 2011  |
| <b>RATE SET DATE</b>          | Tuesday, 13 December 2011   |
| <b>ISSUE DATE</b>             | Thursday, 15 December 2011  |
| <b>LISTING DATE</b>           | Monday, 19 December 2011  |
| <b>INTEREST PAYMENT DATES</b> | Quarterly in arrears in four equal payments on 15 March, 15 June, 15  |

September and 15 December, beginning 15 March 2012

|                                |  |
|--------------------------------|--|
| <b>RATE RESET DATE</b>         | The first Call Date and each 5th anniversary of the first Call Date  |
| <b>BROKERAGE</b>               | 1.00% of the amount issued plus 0.50% on firm allocations  |
| <b>MINIMUM DENOMINATIONS</b>   | NZ\$5,000 with multiples of NZ\$1,000 thereafter   |
| <b>EARLY REDEMPTION OPTION</b> | <p>Subject to APRA's written approval (if required) and any other requirements being met, the Issuer may redeem all or part of the Bonds on a Call Date.</p> <p>Bonds redeemed on a Rate Reset Date will be redeemed at par plus accrued but unpaid interest (if any)</p> <p>Bonds redeemed on any date that is not a Rate Reset Date will be redeemed at the greater of par plus any accrued interest or the market price of the Bonds</p>  |
| <b>TAX REDEMPTION EVENT</b>    | <p>Subject to APRA approval (if required) and any other requirements being met, the Issuer may redeem all (but not part) of the Bonds on issue at any time following the occurrence of a Tax Event at par plus accrued but unpaid interest (if any)</p> <p>A Tax Event means the Issuer's determination that interest payable is not allowed as a deduction for tax purposes; or there is a risk that the Issuer would be exposed to a material increase in its costs or a material reduction in the benefits of the Bonds</p> |
| <b>REGULATORY EVENT</b>        | <p>Subject to APRA approval (if required) and any other requirements being met, the Issuer may redeem all (but not part) of the Bonds on issue at any time prior to the First Call Date following the occurrence of a Regulatory Event at the greater or the market price or par plus accrued but unpaid interest (if any)</p> <p>A Regulatory Event occurs if (as determined by the Issuer) the Bonds will not qualify as tier 2 capital or equivalent due to an actual or prospective regulatory change</p>                  |
| <b>DEFERRED INTEREST</b>       | <p>The Issuer has a general right to defer payment of Interest. In addition the Issuer has a specific obligation to defer payment of Interest in certain circumstances specified in the Master / Supplemental Trust Deed</p> <p>Any deferral of Interest is not an event of default and does not give any Bondholder the right to apply for the Issuer to be placed in liquidation or voluntary administration or appoint a receiver</p>   |
| <b>CUMULATIVE INTEREST</b>     | Deferred Interest is cumulative and interest on Deferred Interest outstanding accrues at the Interest Rate until it is paid  |
| <b>DISTRIBUTION PUSHER</b>     | Deferred interest will become immediately due and payable if any interest payment or distribution has been made on any securities ranking pari passu or junior to the Bonds  |
| <b>LISTING</b>                 | Application has been made to NZX Limited (which is a registered exchange) to list the Bonds on NZDX (being a registered market under the Securities Markets Act 1988) and all relevant requirements of NZX that can be complied with on or before the date of distribution of this Terms Sheet have been complied with. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this Terms Sheet  |
| <b>ISSUE DETAILS</b>           | Full details of the issue are set out in the Investment Statement and Prospectus prepared by IAG for the offer   |