

Reset Exchangeable Securities

RES



Prospectus for the issue of Reset Exchangeable Securities (RES) at an issue price of \$100 each to raise up to \$500 million – with the ability to accept oversubscriptions for up to \$50 million

Applications must be for a minimum of 50 RES (\$5,000)

Issuer

IAG Finance (New Zealand) Limited
(ABN 97 111 268 243),
through its New Zealand branch
The Issuer is a wholly-owned subsidiary of
Insurance Australia Group Limited
(ABN 60 090 739 923)

Lead Manager & Bookrunner



Senior Co-Managers

Citigroup Global Markets Australia Pty Limited
Goldman Sachs JBWere Pty Limited
Macquarie Equities Limited
Ord Minnett Limited
UBS Private Clients Australia Limited

Co-Managers

Bell Potter Securities Limited
Commonwealth Securities Limited
Deutsche Securities Australia Limited
Grange Securities Limited
Tricom Equities Limited

RES are unsecured notes for the purposes of section 283BH of the Corporations Act. The Issuer's obligations are secured over a portfolio of high quality, short-dated fixed interest securities for the benefit of holders of RES.



Important information

Introduction

This Prospectus is a replacement prospectus dated 29 November 2004 and was lodged with the Australian Securities and Investments Commission (ASIC) on that date. It replaces the Prospectus lodged with ASIC on 22 November 2004 (Original Prospectus). References to the Prospectus are to this replacement prospectus.

No RES will be issued on the basis of this Prospectus later than 13 months after the date of the Original Prospectus. ASIC and Australian Stock Exchange Limited (ASX) take no responsibility for the content of this Prospectus nor for the merits of the investment to which this Prospectus relates.

Offer

This Prospectus relates to the offer of RES at an Issue Price of \$100 each to raise up to \$500 million – with the ability to accept oversubscriptions for up to \$50 million (Offer).

RES will be issued by IAG Finance (New Zealand) Limited through its New Zealand branch (Issuer or IAG Finance (NZ)). The Issuer is a wholly-owned subsidiary of IAG.

UBS AG, Australia Branch (ABN 47 088 129 613, AFSL No. 231087) (Lead Manager & Bookrunner) is offering to arrange for the issue of RES by the Issuer according to this Prospectus. The issue of RES is made according to a deed between the Issuer, IAG and the Lead Manager & Bookrunner that constitutes an 'intermediary authorisation' for the purposes of section 911A(2)(b) of the Corporations Act.

As part of the Lead Manager & Bookrunner's obligations according to the intermediary authorisation and the Corporations Act, it is required to give you a Financial Services Guide before you decide to apply for RES. Appendix D contains a copy of the Lead Manager & Bookrunner's Financial Services Guide.

Availability

This Prospectus will be available electronically during the Offer Period on the IAG website at www.iag.com.au/res. Printed copies of this Prospectus will be available free of charge during the Offer Period by calling the **RES Information Line on 1300 666 635** (Monday to Friday, 8.30am to 5.30pm). If you access an electronic copy of this Prospectus, then you should ensure that you download and read the entire Prospectus.

The Application Forms will be available during the Offer Period, both electronically and with printed copies of the Prospectus.

Applications

Applications according to this Prospectus may only be made during the Offer Period, and on the Application Forms attached to, or accompanying, this Prospectus (including an electronic copy).

You should read this Prospectus in its entirety before deciding to apply for RES. If, after reading this Prospectus, you are unclear or have any questions about the Offer, then you should consult your accountant, stockbroker, lawyer or other professional adviser.

Foreign selling restrictions

The distribution of this Prospectus (including an electronic copy) in jurisdictions outside Australia may be restricted by law. If you come into possession of this Prospectus in jurisdictions outside Australia, then you should seek advice on, and observe, any such restrictions. If you fail to comply with such restrictions, that failure may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify

RES or the Offer or to otherwise permit a public offering of RES in any jurisdiction outside Australia. In particular, RES have not been, and will not be, registered under the US Securities Act, and may not be offered or sold in the United States or to, or for the account or benefit of, a US Person.

For details of the foreign selling restrictions that apply to RES in certain foreign jurisdictions – see Section 10.7.

Defined words and expressions

Some words and expressions used in this Prospectus have defined meanings. The Prospectus glossary in Appendix A, clause 16.2 of the RES Terms in Appendix B, and clause 9.2 of the Preference Share Terms in Appendix C define these words and expressions. A reference to time in this Prospectus is to Sydney time, unless otherwise stated. A reference to \$, A\$, dollars and cents is to Australian currency, unless otherwise stated.

Disclaimer

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

You should rely only on information in this Prospectus. No person is authorised to provide any information or to make any representations in connection with the Offer which is not contained in this Prospectus. Any information or representations not contained in this Prospectus may not be relied upon as having been authorised by the Issuer or IAG in connection with the Offer. Except as required by law, and only to the extent so required, none of the Issuer, IAG or any other person warrants the future performance of the Issuer or IAG or any return on any investment made according to this Prospectus.

Investment advice

This Prospectus does not provide investment advice – you should seek your own professional investment advice. The Offer does not take into account your investment objectives, financial situation and particular needs (including financial and taxation issues) as an investor. It is important that you read the entire Prospectus before deciding to apply for RES. In particular, in considering the prospects of the Group, it is important that you consider the risk factors that could affect the financial performance of the Group. You should carefully consider these factors in light of your particular investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to apply for RES. For investment risks relevant to the Offer – see Section 7.

Trustee

The Trustee has had no involvement in the preparation of any part of this Prospectus. The Trustee expressly disclaims and takes no responsibility for any part of this Prospectus. It makes no statement in this Prospectus and has not authorised or caused the issue of it. The Trustee does not guarantee the success of RES or Preference Shares or the payment of any Interest Payments or Dividends.

Limited recourse to the Issuer, IAG and IAG Portfolio

RES Holders have no recourse to IAG, except in the event of failure by IAG to perform its obligations according to the Transaction Documents. The liability of each of the Issuer and IAG Portfolio is limited in recourse to the property which is secured by the Charge and the Mortgage so that the Trustee may not seek to recover shortfalls owing to it by those entities over and above the value of that property.

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Key dates

Event	Date
Record date – Eligible RPS Holders	7.00pm 19 November 2004
Announcement of Offer	22 November 2004
Bookbuild	25 November – 26 November 2004
Lodgement of this Prospectus and announcement of RES Initial Margin	29 November 2004
Opening Date	30 November 2004
Closing Date for RPS Holder Offer and General Offer	5.00pm 5 January 2005
Closing Date for Broker Firm Offer	10.00am 7 January 2005
Issue Date	11 January 2005
Commencement of trading of RES on ASX on a deferred settlement basis	12 January 2005
Despatch of Holding Statements by	14 January 2005
Commencement of trading of RES on ASX on a normal settlement basis	19 January 2005
Record Date for first Interest Payment	28 February 2005
First Interest Payment Date	15 March 2005
First Reset Date	15 March 2010

Dates may change

These dates (excluding Record Date for the first Interest Payment, first Interest Payment Date and first Reset Date) are indicative only and may change. The Issuer, IAG and the Lead Manager & Bookrunner may agree: to extend the Closing Dates; to close the Offer early without notice; or to withdraw the Offer at any time before RES are issued. Accordingly, you are encouraged to lodge your Application as soon as possible after the Opening Date. The period between the Opening Date and the Closing Dates is known as the Offer Period.

Quotation of RES

The Issuer has applied to ASX for RES to be quoted on ASX. Quotation of RES is not guaranteed or automatic. If ASX does not grant permission for RES to be quoted, RES will not be issued and all Application Payments will be refunded (without interest) to Applicants as soon as possible.

Applications

No Application will be accepted (and no RES will be issued) until seven days after the Original Prospectus was lodged with ASIC. ASIC may extend that period for up to a further seven days (up to a total of 14 days) by notice in writing to the Issuer. This period is known as the Exposure Period.

Applications will only be accepted during the Offer Period. You can obtain a copy of this Prospectus and an Application Form on the IAG website at www.iag.com.au/res or arrange for a copy to be sent to you by calling the **RES Information Line on 1300 666 635**.

Chairman's letter



IAG Finance (New Zealand) Limited

ABN 97 111 268 243

New Zealand branch

IAG House,

Level 10, 151 Queen Street

Auckland, New Zealand

22 November 2004

Dear Investor

On behalf of the Directors of IAG Finance (New Zealand) Limited, I am pleased to offer you the opportunity to invest in Reset Exchangeable Securities (RES).

RES are perpetual reset exchangeable notes to be issued by IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of Insurance Australia Group Limited (IAG).

Up to five million RES will be issued at an Issue Price of \$100 each to raise up to \$500 million, with the company having the ability to accept oversubscriptions for up to \$50 million. RES are rated 'A-' by Standard & Poor's and the Directors intend that they will be quoted on ASX.

RES Holders will be entitled to receive non-cumulative, quarterly, floating rate Interest Payments that are expected to be fully franked. The Interest Rate for the first Interest Payment Date will be at least 4.69% per annum fully franked (which is equivalent to a grossed-up Interest Rate of at least 6.70% per annum). The Interest Rate is based on the 90 day Bank Bill Rate plus a margin and depends on certain Interest Payment Tests being met.

RES are not issued or guaranteed by IAG. However, IAG may at any time Exchange RES for Preference Shares, which will pay non-cumulative, quarterly, preferred floating rate Dividends that are expected to be fully franked, subject to certain Dividend Payment Tests. These Preference Shares, if issued, are expected to qualify as regulatory Tier 1 Capital but are different from preference shares previously issued by IAG (RPS1 and RPS2).

The key features of RES and Preference Shares are summarised on pages 4 and 5 and a comparison to RPS1 and RPS2 is provided on pages 6 and 7.

The issue of RES enhances IAG's capital structure by providing certainty now of access to regulatory Tier 1 Capital if needed at any time – particularly in market conditions that are less favourable or less certain than the current market conditions. Such circumstances could include a severe fall in equity markets (like that experienced in October 1987), or major catastrophes that are beyond the limits of the Group's Reinsurance arrangements (there have been no major catastrophes beyond these limits in Australia or New Zealand to date).

RES will provide the Group with the flexibility and certainty to access regulatory Tier 1 Capital at any time. Upon issue of RES, the Group will reduce its current benchmark multiple of APRA's minimum capital requirement from 1.60 times to 1.55 times. This will enable the Group to release some existing capital for use in IAG's operations or for return to Ordinary Shareholders at an opportune time.

Full details of this investment opportunity are set out in this Prospectus and I urge you to read it thoroughly. If you have any questions regarding the Offer, please contact your accountant, stockbroker, lawyer or other professional adviser. If you have any questions on how to apply for RES, please call the **RES Information Line on 1300 666 635**.

The key dates for the Offer are summarised on the previous page. It is possible that the Offer will close early, so I encourage you to lodge your Applications as soon as possible after the Opening Date.

Yours faithfully

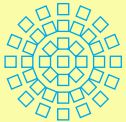
A handwritten signature in black ink that reads 'James Strong'.

James Strong

Chairman

IAG Finance (New Zealand) Limited

Offer



Reset Exchangeable Securities...

This Prospectus describes the Offer of RES. The Issuer intends to issue up to five million RES, at an Issue Price of \$100 each to raise up to \$500 million – with the ability to accept oversubscriptions for up to \$50 million. The minimum Application is 50 RES (\$5,000).

The Group currently has sufficient Tier 1 Capital. This is the reason why the IAG Directors did not choose to issue a security like Preference Shares now.

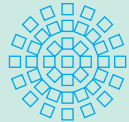
The gross proceeds of the Offer will, through a series of intra-group arrangements, be invested by a wholly-owned subsidiary of IAG in a portfolio of high quality, short-dated, fixed interest securities (Portfolio). The Issuer's obligations to RES Holders are secured by the Portfolio and Interest Payments and Redemption Amounts will depend on the performance and the creditworthiness of this Portfolio.

In this Prospectus, certain information that is specific to RES has been highlighted with a yellow background and certain information that is specific to Preference Shares has been highlighted with a green background.

Reset Exchangeable Securities – issued by IAG Finance (NZ)

- **Floating rate Interest Payments**
 - Interest Payments are non-cumulative, based on a floating rate, and are expected to be fully franked
 - Interest Payments are payable quarterly and are subject to Interest Payment Tests
 - the Interest Rate for the first Interest Payment Date will be at least 4.69% per annum fully franked (which is equivalent to a grossed-up Interest Rate of at least 6.70% per annum)
- **Depend on Portfolio performance and creditworthiness**
 - Interest Payments and the Redemption Amount will depend on the performance and creditworthiness of the Portfolio, which will be managed by IAG Asset Management Limited
 - The Portfolio has an Australian Bond Fund Rating of 'AAAf' by S&P¹. According to S&P, funds rated 'AAAf' have extremely strong protection against losses from credit default
 - 'AAAf' is the highest Australian Bond Fund Rating assigned by S&P
- **Reset provisions**
 - certain terms of RES may be changed by the Issuer on 15 March 2010 and any Reset Date after that
- **Exchangeable**
 - for Preference Shares at any time by IAG
- **Redeemable and Convertible**
 - on Reset Dates or when specified events occur:
 - RES Holders can request redemption of RES; or
 - the Issuer can Redeem for cash or Convert RES into Ordinary Shares
- **Quoted on ASX**
 - the Issuer has applied to quote RES on ASX
- **Issue Credit Rating¹**
 - RES are rated 'A-' by S&P¹

Note: ¹ Any Issue Credit Rating of 'BBB-' or higher from S&P is currently considered to be 'investment grade' – see Section 6.5 for the Group's credit ratings and Section 7.3.8 for investment risks associated with credit ratings.



...Preference Shares

At any time, IAG may exercise its Exchange Right to Exchange some or all RES for Preference Shares issued by IAG. The Preference Shares, if issued, are expected to qualify as Tier 1 Capital.

**IF IAG
EXERCISES
ITS EXCHANGE
RIGHT**

Preference Shares – issued by IAG

- **Floating rate step-up Dividends**
 - Dividends are non-cumulative, based on a floating rate, and are expected to be fully franked
 - Dividends are payable quarterly and are subject to Dividend Payment Tests
 - the Dividend Rate will be calculated in a similar manner to the Interest Rate on RES
 - if Preference Shares are not Redeemed or Converted by the first Dividend Payment Date after the ten year anniversary of the Preference Share Issue Date (Step-Up Date), then the Preference Share Initial Margin will increase by a one time step-up of 1.00% per annum
- **Redeemable and Convertible**
 - on the Step-Up Date (or any Dividend Payment Date after that) or in certain other limited circumstances, IAG can:
 - Redeem Preference Shares for cash (subject to APRA approval); or
 - Convert Preference Shares into Ordinary Shares
- **Quoted on ASX**
 - if the Preference Shares are issued, IAG will apply to quote them on ASX
- **Issue Credit Rating¹**
 - Preference Shares are expected to have the same rating as RPS1 and RPS2, which are currently rated 'A-' by S&P
- **Ranking**
 - Preference Shares are expected to rank equally with RPS1 and RPS2

Comparing RES...

RES being offered according to this Prospectus are reset securities which may be Exchanged into Preference Shares in IAG. Although both of these securities are similar to IAG's RPS1 and RPS2, there are some ways in which they are different. The table on these two pages gives you a snapshot of the similarities and differences and is not exhaustive.

Feature	RES – the security being offered according to this Prospectus
Legal form	Unsecured note ¹ . The Issuer's obligations are secured over the Portfolio for the benefit of RES Holders.
Issuer	IAG Finance (NZ), through its New Zealand branch
Issue Credit Rating²	'A-' by S&P
Quotation on ASX	The Issuer has applied to quote RES on ASX
Issue date	Expected to be 11 January 2005
Maturity	Perpetual
Distribution	Interest
Non-cumulative	Yes
Expected to be fully franked	Yes
Distribution rate	(market rate + margin) x (1 – tax rate)
Market rate	Floating rate based on 90 day Bank Bill Rate – payable quarterly in arrears
Margin	RES Initial Margin of 1.20% per annum ³
Distribution source	Portfolio – from where Interest Payments will be sourced. The Portfolio will be managed by IAG AM and RES Holders have a security interest in the Portfolio
Distribution tests	Sufficient Net Portfolio Income per RES and the IAG Profits Test
Step-Up Date – on which the margin increases once only	Not applicable
Step-up margin increase	Not applicable
Reset provisions	Yes
First Reset Date	15 March 2010
Exchange into Preference Shares	Yes, at IAG's discretion at any time
Issuer redemption or conversion	On a Reset Date and in other circumstances, including a Regulatory Event or Tax Event, the Issuer at its discretion may: <ul style="list-style-type: none"> • Redeem for cash; or • Convert into Ordinary Shares
 Holders can request redemption	On a Reset Date or Trigger Event
Number of Ordinary Shares on conversion calculated as	$\frac{\text{Redemption Amount}}{\text{VWAP} \times (1 - \text{RES Conversion Discount of } 2.50\%)^3}$
Ranking in liquidation	Redemption Amount secured over the Portfolio
Qualifying Tier 1 Capital under APRA guidelines	No

Notes:

- 1 RES are unsecured notes for the purposes of section 283BH of the Corporations Act and are limited recourse debt obligations of the Issuer secured over the Portfolio for the benefit of RES Holders.
- 2 Any Issue Credit Rating of 'BBB-' or higher from S&P is currently considered to be 'investment grade' – see Section 6.5 for the Group's credit ratings and Section 7.3.8 for investment risks associated with credit ratings.

...to RPS1 and RPS2 and Preference Shares

You can read: the key terms of RES and Preference Shares in Section 1; a question and answer summary in Section 2; the RES Terms in Appendix B; and the Preference Share Terms in Appendix C.

RPS1 and RPS2 – currently issued and quoted on ASX	Preference Shares – for which RES may be Exchanged by IAG
Preference share	Preference share
IAG	IAG
'A-' by S&P	Preference Shares are expected to have the same S&P rating as RPS1 and RPS2, which is currently 'A-' by S&P
Yes	Intended
4 June 2002 and 20 June 2003, respectively	Preference Shares Issue Date upon Exchange of RES
Perpetual	Perpetual
Dividend	Dividend
Yes	Yes
Yes	Yes
(market rate + margin) x (1 – tax rate)	(market rate + margin) x (1 – tax rate)
Fixed rate based on five year swap rate – payable semi-annually in arrears ³	Floating rate based on 90 day Bank Bill Rate – payable quarterly in arrears
1.90% and 1.60% per annum ³ , respectively	Same as RES Margin at Preference Share Issue Date until the Step-Up Date, then a one time step-up of 1.00% per annum
IAG	IAG
Dividend payment tests (IAG and APRA)	Dividend Payment Tests (IAG and APRA)
Not applicable	Dividend Payment Date ten years after the Preference Share Issue Date
Not applicable	One time step-up of 1.00% at the Step-Up Date
Yes	No
15 June 2007 and 15 June 2008, respectively	Not applicable
Not applicable	Not applicable
On a reset date or if certain events occur including a regulatory event or tax event, IAG, at its discretion may: <ul style="list-style-type: none"> • redeem for cash (subject to APRA approval); or • convert into Ordinary Shares 	On the Step-Up Date, any Dividend Payment Date after that date and in other limited circumstances, including a Regulatory Event or Tax Event, IAG, at its discretion, may: <ul style="list-style-type: none"> • Redeem for cash (subject to APRA approval); or • Convert into Ordinary Shares
IAG may elect to redeem (subject to APRA approval), convert or resell RPS1 or RPS2 on holder request for redemption on a reset date or trigger event	No
$\frac{\$100}{\text{WVAP} \times (1 - \text{conversion discount})^3}$	$\frac{\text{Preference Share Issue Price}}{\text{WVAP} \times (1 - \text{Preference Share Conversion Discount})^4}$
Pro rata with preference shares	Pro rata with preference shares
Yes	Yes

Notes: (continued)

³ May be changed by the issuer on a reset date.

⁴ The RES Conversion Discount on the Preference Share Issue Date.

How to apply for RES



Read

Read this Prospectus in full, paying particular attention to:

- important information on the inside front cover;
- answers to key questions in Section 2; and
- investment risks that may be relevant to an investment in the Offer in Section 7.



Consider and consult

Consider all investment risks and other information about an investment in the Offer in light of your particular investment objectives and your circumstances.

You should consult your accountant, stockbroker, lawyer or other professional adviser if you are uncertain whether you should apply for RES.



Complete

Complete the relevant Application Form.

If at 7.00pm on 22 November 2004 you held any RPS1 or RPS2 and you are shown on the Register as having an address in Australia, then you are an Eligible RPS Holder.

This means that you are eligible for preferential treatment over Applications received through the General Offer when RES are allocated. To apply as an Eligible RPS Holder, you must apply on the yellow personalised Application Form. To receive a Prospectus and your yellow personalised Application Form, follow the instructions on the letter that was mailed to you by the Issuer on 22 November 2004 and register your interest either:

- online at www.iag.com.au/res; or
- by calling the **RES Information Line on 1300 666 635**.

If you are not an Eligible RPS Holder and you want to apply for RES through the General Offer, then you need to complete the blue Application Form in the back of this Prospectus. To receive a copy of this Prospectus with the attached, or accompanying Application Form, go to the website www.iag.com.au/res or call the **RES Information Line on 1300 666 635**.

To apply, your completed Application Form must be accompanied by a cheque(s) in Australian currency. Cheques should be crossed 'not negotiable' and made payable to '**IAG RES Offer**'.

Broker Firm Applicants should contact your Senior Co-Manager, Co-Manager or Participating Broker for more information about how to submit an Application Form and Application Payment.



Mail or deliver

Mail or deliver your completed Application Form together with your Application Payment (unless you are a Broker Firm Applicant):

by mail to the Registry:

or

by hand delivery to the Registry:

Computershare Investor Services Pty Limited
Reply Paid 1486
Sydney NSW 2001

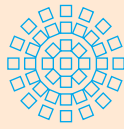
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Your completed Application Form and Application Payment must be received by the Registry:

- if you are an Eligible RPS Holder or a member of the general public applying through the General Offer, no later than the Closing Date for the RPS Holder Offer and the General Offer – which is expected to be **5.00pm on 5 January 2005**; or
- if you are a Broker Firm Applicant and you forward your Application Form and Application Payment to your Senior Co-Manager, Co-Manager or Participating Broker, in time for them to arrange settlement on your behalf by the Closing Date for the Broker Firm Offer – which is expected to be **10.00am on 7 January 2005**.

The Offer may close early, so you are encouraged to lodge your Application Forms and Application Payment as soon as possible after the Opening Date.

For full details on applying for RES, see Section 3. To obtain an answer to any questions on how to apply for RES, call the RES Information Line on 1300 666 635.



Key terms of RES and Preference Shares

Section 1

Section 1 summarises the key terms of RES and Preference Shares. This information is a summary only. You should read this summary subject to the other information contained in this Prospectus, in particular:

- the investment risks in Section 7; and
- the RES Terms in Appendix B and Preference Share Terms in Appendix C.

For more detail on these key terms, see Section 2 which provides answers to key questions about RES and Preference Shares and the Offer generally.

Reset Exchangeable Securities...

...as offered according to this Prospectus. At any time, IAG may at its discretion exercise its Exchange Right to Exchange RES into Preference Shares. A summary of the key terms of Preference Shares is on pages 12 and 13. The Issuer may also Redeem or Convert RES, at certain times as summarised in the following table.

Security	RES are perpetual reset exchangeable securities, issued according to the RES Terms. RES are unsecured notes for the purposes of section 283BH of the Corporations Act and are limited recourse debt obligations of the Issuer secured over the Portfolio for the benefit of RES Holders.
Issuer	IAG Finance (New Zealand) Limited, through its New Zealand branch.
Issue Price	\$100 per RES.
ASX quotation	The Issuer has applied to quote RES on ASX. RES will trade under ASX code 'IANG'.
Term	Perpetual – unless Redeemed or Converted by the Issuer or Exchanged by IAG.
Issue Credit Rating	'A-' Issue Credit Rating by S&P.
Use of proceeds	The gross proceeds of the Offer will, through intra-group arrangements, be invested in the Portfolio.

Interest Payments

Floating rate Interest Payments	Interest Payments are non-cumulative, based on a floating rate, expected to be fully franked and are subject to the Interest Payment Tests.
Interest Rate for the first Interest Payment	<p>The Interest Rate for the first Interest Payment (to be paid on 15 March 2005) will be at least 4.69% per annum and will be calculated according to the following formula:</p> $\text{Interest Rate} = (\text{Bank Bill Rate} + \text{RES Margin}) \times (1 - \text{Tax Rate})$ <p>where:</p> <p>Bank Bill Rate the higher of 5.50% per annum (Minimum Bank Bill Rate) or the Bank Bill Rate on the Issue Date;</p> <p>RES Margin the RES Initial Margin of 1.20% per annum; and</p> <p>Tax Rate applicable to IAG's franking account as at the Interest Payment Date – 30% at the time of this Prospectus.</p>
Interest Rate for all later Interest Payments	<p>The Interest Rate for all later Interest Payments will be calculated according to the following formula:</p> $\text{Interest Rate} = (\text{Bank Bill Rate} + \text{RES Margin}) \times (1 - \text{Tax Rate})$ <p>where:</p> <p>Bank Bill Rate the 90 day Bank Bill Rate on the first Business Day of the Interest Period;</p> <p>RES Margin the RES Initial Margin until the first Reset Date (and after that as changed on any Reset Date); and</p> <p>Tax Rate as above.</p>
Interest Payment Dates	Interest Payments are payable quarterly in arrears on 15 March, 15 June, 15 September and 15 December (or the next Business Day) and any Realisation Date. All Interest Payments will be paid by direct credit to an account nominated by RES Holders at an Australian financial institution.
Franking	Interest Payments are expected to be fully franked. If an Interest Payment is not fully franked, then the Interest Payment will be increased (or grossed-up) to compensate for the unfranked component.
Interest Payment Tests	<p>There are two Interest Payment Tests:</p> <ul style="list-style-type: none"> • Test 1 – Interest Payments will only be paid in full if the Net Portfolio Income exceeds the aggregate Interest Payment as at the Interest Payment Date – if this test is failed, the Interest Payment will only be paid up to the Net Portfolio Income available per RES; and • Test 2 – Interest Payments may not be paid if both of the following apply (these tests are referred to as the IAG Profits Test): <ul style="list-style-type: none"> – IAG does not have sufficient profits equal to, or greater than, the aggregate Interest Payments on all RES; and – IAG has not paid a dividend on any class of its capital in the 12 month period before the relevant Interest Payment Date.

Dividend stopper if Interest Payments not paid because of IAG Profits Test

If an Interest Payment is not paid in full within 20 Business Days of an Interest Payment Date as a result of IAG failing the IAG Profits Test, then a dividend stopper applies. IAG is restricted from paying any dividends or making any returns of capital on Ordinary Shares (or any capital that ranks below any preference shares on issue – including below RPS1, RPS2 and Preference Shares), unless the Issuer pays 12 months Interest Payments in full or pays any unpaid Interest Payments from the last 12 months.

Portfolio

Australian Bond Fund Rating 'AAAf' by S&P

The Portfolio is owned by IAG Portfolio and the Portfolio Manager is IAG AM. The Trustee has a security interest in the Portfolio. The Portfolio has an Australian Bond Fund Rating of 'AAAf' from S&P. According to S&P, funds rated 'AAAf' have extremely strong protection against losses from credit default. 'AAAf' is the highest Bond Fund Rating assigned by S&P.

Reset

Reset Dates

The first Reset Date is 15 March 2010.

On each Reset Date, the Issuer may change the next Reset Date, the RES Margin and the RES Conversion Discount. However, it may not change the calculation of the Bank Bill Rate or the frequency and timing of Interest Payments – so RES will always have a quarterly, floating rate Interest Rate.

Exchange

IAG's Exchange Right

IAG may at its discretion Exchange RES into Preference Shares at any time. However, it may only exercise its Exchange Right in up to two tranches. Each tranche must be at least two million RES. If IAG exercises its Exchange Right, each RES will be Exchanged for one Preference Share. That Preference Share will have an issue price equal to the Redemption Amount on the Realisation Date.

Exchange by RES Holders

RES Holders have no right to request Exchange.

Redemption or Conversion

Redemption or Conversion by the Issuer

The Issuer may Redeem or Convert some or all RES on any Reset Date, or after certain specified events – see Section 2.6.

Redemption by RES Holders

RES Holders may request redemption of some or all of their RES on any Reset Date or if a Trigger Event occurs.

If the Issuer receives a redemption request from a RES Holder, then the Issuer may choose to do any of the following:

- arrange for a third party to acquire those RES from the RES Holder for the Issue Price plus any accrued Interest Payments;
- Redeem RES for an amount of cash equal to the Redemption Amount; or
- Convert RES into a number of Ordinary Shares equal to the Conversion Number.

In addition, IAG may exercise its Exchange Right.

Redemption Amount

The Redemption Amount is \$100. However, if the Net Portfolio Proceeds per RES is less than \$100, then the Redemption Amount will be reduced to the Net Portfolio Proceeds per RES.

Conversion Number

The number of Ordinary Shares to be issued on Conversion of a RES will be calculated by dividing:

- the Redemption Amount; by
- the average of the daily volume weighted average sale prices of Ordinary Shares sold on ASX (VWAP) during the 20 Business Days immediately before the Redemption Date, reduced by the RES Conversion Discount of 2.50% (which the Issuer can change on any Reset Date).

Ranking

Ranking

RES are a debt instrument of a wholly-owned subsidiary of IAG.

On a winding-up of the Issuer, RES Holders will receive an amount of cash equal to the Redemption Amount. On a winding-up of the Issuer, IAG may no longer exercise its Exchange Right.

Preference Shares...

... for which IAG may Exchange some or all RES at any time.

Security	Preference Shares are fully paid preference shares in the capital of IAG issued according to the Preference Share Terms.
Issuer	Insurance Australia Group Limited.
Preference Share Issue Price	Preference Shares will be issued for the Redemption Amount, which may be less than the RES Issue Price of \$100.
Step-Up Date	The first Dividend Payment Date ten years after the Preference Share Issue Date. On the Step-Up Date, the Preference Share Margin will increase by a one time step-up of 1.00% for all Dividends after the Step-Up Date.
ASX quotation	If the Preference Shares are to be issued, IAG will prior to issue apply to quote Preference Shares on ASX.
Term	Perpetual – unless Redeemed or Converted by IAG.
Issue Credit Rating	If issued today, Preference Shares would be expected to have the same S&P Issue Credit Rating as RPS1 and RPS2, which currently is 'A-'.

Dividends

Floating rate Dividends	Dividends are non-cumulative, based on a floating rate, expected to be fully franked and are subject to the Dividend Payment Tests.
Dividend Rate	<p>Dividend Rate will be calculated in the same way as the Interest Rate on RES according to the following formula:</p> $\text{Dividend Rate} = (\text{Bank Bill Rate} + \text{Preference Share Margin}) \times (1 - \text{Tax Rate})$ <p>where:</p> <p>Bank Bill Rate the 90 day Bank Bill Rate on the first Business Day of the Dividend Period – other than the first Dividend Period where the Bank Bill Rate is determined according to the Preference Share Terms;</p> <p>Preference Share Margin equal to the RES Margin as at the Preference Share Issue Date until the Step-Up Date when it will increase by a one time step-up of 1.00% per annum; and</p> <p>Tax Rate applicable to IAG's franking account as at the Dividend Payment Date – 30% at time of this Prospectus.</p>
Dividend Payment Dates	Dividends are payable quarterly in arrears on 15 March, 15 June, 15 September and 15 December (or the next Business Day) and any Preference Share Exchange Date. All Dividends will be paid by direct credit to an account nominated by Preference Shareholders at an Australian financial institution.
Franking	Dividends are expected to be fully franked. If a Dividend is not fully franked, then the Dividend will be grossed-up to compensate for the unfranked component.
Dividend Payment Tests	<p>There are five Dividend Payment Tests:</p> <ul style="list-style-type: none"> • the Directors determining a Dividend to be payable; • IAG having sufficient profits available to pay the Dividend; • IAG being able to pay the Dividend without the Group breaching APRA's capital adequacy guidelines; • IAG having sufficient APRA Distributable Profits; and • APRA not otherwise objecting to the Dividend being paid.

Dividend stopper if Dividends not paid

If a Dividend is not paid in full within 20 Business Days of a Dividend Payment Date, then a dividend stopper applies. This means IAG is restricted from paying any dividends or making any returns of capital on Ordinary Shares (or any capital that ranks below any preference shares on issue – including below RPS1, RPS2 and Preference Shares), unless IAG pays 12 months Dividends in full or pays any unpaid Dividends from the last 12 months.

Redemption or Conversion

Redemption or Conversion by IAG

IAG may Redeem or Convert some or all Preference Shares on any of: the Step-Up Date; any Dividend Payment Date after the Step-Up Date; or after certain specified events – see Section 2.10.

IAG may elect to:

- Redeem Preference Shares for an amount of cash (subject to APRA approval); or
- Convert Preference Shares for a number of Ordinary Shares.

The value of the cash or Ordinary Shares you will receive on Redemption or Conversion will be at least equal to the Preference Share Issue Price.

Redemption or Conversion by Preference Shareholders

Preference Shareholders have no right to request Redemption or Conversion.

Conversion Number

The number of Ordinary Shares to be issued on Conversion of a Preference Share will be calculated by dividing:

- the Preference Share Issue Price; by
- the VWAP during the 20 Business Days immediately preceding the Preference Share Exchange Date, reduced by the Preference Share Conversion Discount.

Preference Share Conversion Discount

The Preference Share Conversion Discount will be the RES Conversion Discount as at the Preference Share Issue Date. The RES Conversion Discount is 2.50% as at the date of this Prospectus (but it may be changed by the Issuer on any Reset Date whilst RES are on issue).

Ranking

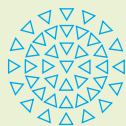
Ranking

Dividends will be paid in priority to any dividends on Ordinary Shares. On a winding-up of IAG, Preference Shares will rank for dividends and a return of capital behind all creditors of IAG, equally with RPS1 and RPS2, and ahead of Ordinary Shares.

IAG reserves the right to issue additional Preference Shares in the future (or other preference shares ranking equally with or behind the Preference Shares) without the approval of Preference Shareholders.

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

Section 2



Answers to key questions

Reset Exchangeable Securities

2.1 Description of RES

- 2.1.1 What are RES?
- 2.1.2 How can you apply for RES?
- 2.1.3 Is there a minimum Application amount?
- 2.1.4 Can RES be traded on ASX?
- 2.1.5 Are RES independently rated?
- 2.1.6 Who is involved in the Offer?
- 2.1.7 How is IAG involved?

2.2 Interest Payments

- 2.2.1 What is an Interest Payment?
- 2.2.2 How will the Interest Rate be determined?
- 2.2.3 What is the Bank Bill Rate?
- 2.2.4 When will your Interest Payments be paid?
- 2.2.5 Will your Interest Payments be fully franked?
- 2.2.6 How will your Interest Payments be paid?
- 2.2.7 Will Interest Payments always be paid?
- 2.2.8 What happens if an Interest Payment is not paid in full?

2.3 Portfolio

- 2.3.1 What is the Portfolio?
- 2.3.2 What is the risk of a loss or reduced income on the Portfolio?
- 2.3.3 What happens if there are losses sustained by the Portfolio?

2.4 Reset provisions

- 2.4.1 What are Reset Dates?
- 2.4.2 What terms may change on a Reset Date?
- 2.4.3 Will you be notified if any terms are to change on a Reset Date?

2.5 Exchange of RES

- 2.5.1 What is Exchange?
- 2.5.2 When can IAG exercise its Exchange Right?
- 2.5.3 What would cause IAG to exercise its Exchange Right?
- 2.5.4 Can you request Exchange of RES?
- 2.5.5 What will you receive on Exchange?

2.6 Redemption or Conversion of RES

- 2.6.1 What is Redemption?
- 2.6.2 What is Conversion?
- 2.6.3 Who can initiate Redemption or Conversion?
- 2.6.4 When can you request redemption?
- 2.6.5 What is a Trigger Event?
- 2.6.6 What is a Liquidation Event?
- 2.6.7 What happens if you request redemption?
- 2.6.8 What is the Redemption Amount?
- 2.6.9 If your RES are Converted, how many Ordinary Shares will you receive?
- 2.6.10 When can the Issuer initiate Redemption or Conversion?
- 2.6.11 What happens if the Issuer initiates Redemption or Conversion?
- 2.6.12 What is a Regulatory Event?
- 2.6.13 What is a Tax Event?
- 2.6.14 What is an Acquisition Event?

2.7 Ranking of RES

- 2.7.1 Where do RES rank?
- 2.7.2 In a winding-up of the Issuer, what will you receive?
- 2.7.3 Is the Issuer or IAG restricted in relation to other securities it may issue?
- 2.7.4 Do RES carry any participation rights?

This Section answers some key questions you may have about the Offer.

Preference Shares

2.8 Description of Preference Shares

- 2.8.1 What are Preference Shares?
- 2.8.2 Will Preference Shares be quoted on ASX?

2.9 Dividends

- 2.9.1 What is a Dividend?
- 2.9.2 How will the Dividend Rate be determined?
- 2.9.3 When will your Dividends be paid?
- 2.9.4 Will your Dividends be fully franked?
- 2.9.5 How will your Dividends be paid?
- 2.9.6 Will Dividends always be paid?
- 2.9.7 What happens if a Dividend is not paid in full?

2.10 Redemption or Conversion of Preference Shares

- 2.10.1 What is Redemption or Conversion of Preference Shares?
- 2.10.2 Can you request Redemption or Conversion of Preference Shares?
- 2.10.3 When can IAG initiate Redemption or Conversion?
- 2.10.4 If your Preference Shares are Converted, how many Ordinary Shares will you receive?
- 2.10.5 What happens if IAG does not initiate Redemption or Conversion by the Step-Up Date?

2.11 Ranking and voting rights of Preference Shares

- 2.11.1 Where do Preference Shares rank?
- 2.11.2 In a winding-up of IAG, what will Preference Shareholders receive?
- 2.11.3 Do Preference Shareholders have voting rights?
- 2.11.4 Is IAG restricted in relation to other securities it may issue?
- 2.11.5 Do Preference Shares carry any participation rights?

Additional key questions

2.12 What are the risks of investing in the Offer?

2.13 What are the taxation consequences of investing in the Offer?

2.14 How can you find out more information about the Offer?

The answers to these key questions are intended as a guide only. Further details are provided in other Sections of this Prospectus, which you should read in its entirety. The RES Terms are set out in Appendix B and the Preference Share Terms are set out in Appendix C.

Reset Exchangeable Securities

2.1 Description of RES

2.1.1 What are RES?

RES is an abbreviation for reset exchangeable securities, which are perpetual reset exchangeable securities issued by the Issuer according to the RES Terms and the Trust Deed. RES are unsecured notes for the purposes of section 283BH of the Corporations Act and are limited recourse debt obligations of the Issuer secured over the Portfolio for the benefit of RES Holders.

RES:

- entitle RES Holders to a non-cumulative, quarterly, floating rate Interest Payment which is expected to be fully franked – subject to the Interest Payment Tests – see Section 2.2.7;
- have Interest Payments and Redemption Amounts which depend on the performance and creditworthiness of the Portfolio – see Section 2.3;
- have particular terms that may change on any Reset Date – see Section 2.4;
- may be Exchanged by IAG for Preference Shares at any time – see Section 2.5;
- may be Redeemed or Converted by the Issuer on any Reset Date or after certain specified events – see Section 2.6; and
- will rank equally among themselves in a winding-up – see Section 2.7.

2.1.2 How can you apply for RES?

Details of how to apply for RES are provided in Section 3. Application Forms are attached to, or accompany, this Prospectus. Instructions on how to complete the Application Form(s) are in the back of this Prospectus.

2.1.3 Is there a minimum Application amount?

If you apply for RES, then you must pay \$100 per RES upon Application. You must apply for a minimum of 50 RES (\$5,000). If you apply for more than 50 RES, then you must apply for multiples of 10 RES – that is, for incremental multiples of at least \$1,000.

2.1.4 Can RES be traded on ASX?

The Issuer has applied to ASX for RES to be quoted on ASX. Quotation is not guaranteed or automatic. Quotation on ASX will allow you to realise or increase your investment in RES by selling or buying RES on ASX at the then market price. There can be no assurance as to what that price will be.

If ASX does not grant permission for RES to be quoted, then RES will not be issued and all Application Payments will be refunded (without interest) to Applicants as soon as possible. If RES are quoted on ASX, then they can be purchased or sold through any stockbroker in Australia. RES will trade under ASX code 'IANG'.

2.1.5 Are RES independently rated?

RES have been assigned an Issue Credit Rating of 'A-' by S&P. Any Issue Credit Rating of 'BBB-' or higher from S&P is currently considered 'investment grade'. See Section 6.5 for information about the Group's credit ratings and Section 7.3.8 for information about the risks associated with credit ratings.

2.1.6 Who is involved in the Offer?

The following entities will be involved in the issue of RES:

Entity	Role
IAG Finance (NZ)¹ IAG Finance (New Zealand) Limited	The Issuer of RES. The Issuer is an Australian company which will issue RES through its branch in New Zealand. See Sections 5.1 and 5.2 for further details on the Issuer; Sections 2.1 to 2.7 for answers to key questions about RES; and Appendix B for the RES Terms.
IAG Insurance Australia Group Limited	<ul style="list-style-type: none"> In relation to RES, IAG is the Australian parent entity of the Issuer. See Section 2.1.7 on how IAG is involved in the Offer and Section 2.2.8 on what happens if an Interest Payment is not paid in full. In relation to Preference Shares, the issuer of Preference Shares. See Section 6 for further details on IAG; Sections 2.8 to 2.11 for answers to questions about Preference Shares; and Appendix C for the Preference Share Terms.
IAG Portfolio¹ IAG Portfolio Limited	The beneficial owner of the Portfolio with the sole purpose of investing the gross proceeds of a loan from IAL in the Portfolio. IAG Portfolio is an Australian company. IAG Portfolio will grant the Trustee a security interest in the Portfolio to secure the Issuer's obligations to RES Holders. See Section 5.3 for further details on the Portfolio and Section 2.3 for answers to questions about the Portfolio.
IAG AM¹ IAG Asset Management Limited	The Portfolio Manager appointed according to the PMA, which manages the Portfolio according to the Investment Mandate. See Section 9.3 for a summary of the PMA.
IAL¹ Insurance Australia Limited	IAL will lend an amount equal to the gross proceeds of the Offer to IAG Portfolio. IAL is the provider of the Interest Rate Floor to IAG Portfolio. See Section 9.4 for a summary of the Interest Rate Floor.
IAG (NZ) Holdings¹ IAG (NZ) Holdings Limited	The holding company of IAG's New Zealand operations. IAG (NZ) Holdings is a New Zealand company. The Issuer will lend the gross proceeds of the Offer to IAG (NZ) Holdings which uses the proceeds to repay existing loans from IAL.
Trustee Permanent Trustee Company Limited	The holder of RES and other rights according to the Transaction Documents (including the security interest in the Portfolio) for the benefit of RES Holders. The Trustee is appointed according to the Trust Deed. See Section 9.2 for a summary of the Trust Deed.
Custodian National Australia Bank Limited	The holder and administrator of the Portfolio for the benefit of the Issuer, IAG Portfolio, the Trustee and indirectly RES Holders. The Custodian is appointed according to the PMA. See Section 9.3 for a summary of the PMA. The Custodian has no responsibility for management of the Portfolio and does not guarantee or support in any way the Issuer's or IAG Portfolio's obligations to RES Holders.
Lead Manager & Bookrunner UBS AG, Australia Branch	The arranger of the issue of RES by the Issuer according to this Prospectus. The Lead Manager & Bookrunner is appointed according to the Offer Management Agreement as summarised in Section 9.5. The Lead Manager & Bookrunner is required to provide a Financial Services Guide to potential investors in RES. See Appendix D for the Financial Services Guide.

Note: ¹ A wholly-owned subsidiary of IAG.

2.1.7 How is IAG involved?

RES are securities issued by a wholly-owned subsidiary of IAG, and IAG has no obligations in relation to RES except:

- in the case of Conversion or Exchange, it is obliged to issue Ordinary Shares or Preference Shares respectively;
- if IAG AM breaches its obligations in relation to managing the Portfolio and, as a direct result, there is insufficient Net Portfolio Income to pay the Interest Payment in full or insufficient Net Portfolio Proceeds are realised on a Conversion, Redemption or Exchange to pay the Redemption Amount in full, then IAG must pay an amount equal to the shortfall into the Portfolio;
- if Interest Payments are not fully franked, then IAG must pay an amount into the Portfolio to fund a gross-up of the Interest Payment;
- to pay all costs, charges and expenses of managing the Portfolio including for the Trustee and Custodian.

As a result of these obligations, IAG may be required to make certain payments into the Portfolio. IAL may also be required to make payments into the Portfolio as provider of the Interest Rate Floor. However, IAG Portfolio and other members of the Group may be entitled to any surplus in the Portfolio from excess Net Portfolio Income after payment of aggregate Interest Payments, or from excess Net Portfolio Proceeds after payment of aggregate Redemption Amounts.

If you hold RES, then you have limited recourse to the Group, due to the set-off arrangements between the Issuer, Trustee, Custodian and IAG Portfolio.

2.2 Interest Payments

2.2.1 What is an Interest Payment?

Interest Payments are non-cumulative, based on a floating rate, expected to be fully franked and are subject to Interest Payment Tests. Interest Payments are expected to be paid quarterly and calculated at the Interest Rate – see Section 2.2.2. The Interest Payment Tests – see Section 2.2.7.

Each Interest Payment is calculated according to the following formula:

$$\text{Interest Payment} = \frac{\text{Interest Rate} \times \text{Issue Price} \times N}{365}$$

N the number of days in the Interest Period.

As an example, if the Interest Rate was 4.69% per annum as calculated in Section 2.2.2, then the Interest Payment for one RES for the first Interest Period would be calculated as follows:

Interest Rate	4.69% per annum
Multiplied by the Issue Price	x \$100.00
Multiplied by the number of days in the Interest Period	x 63 ¹
Divided by the number of days in a year	÷ 365
Interest Payment (first Interest Payment Date of 15 March 2005) fully franked	\$0.80²

Notes:

- 1 Interest Periods will have approximately 90 days in them – except for the first Interest Period used in the example above which is a shorter Interest Period that starts on the Issue Date.
- 2 Any fraction of a cent is disregarded when calculating Interest Payments on a RES Holder's aggregate holding of RES.

2.2.2 How will the Interest Rate be determined?

The Interest Rate is a floating rate and will be set on the first Business Day of each Interest Period by observing the Bank Bill Rate and then using the following formula:

$$\text{Interest Rate} = (\text{Bank Bill Rate} + \text{RES Margin}) \times (1 - \text{Tax Rate})$$

Bank Bill Rate for the first Interest Payment, the higher of the Minimum Bank Bill Rate or the Bank Bill Rate on the Issue Date;

RES Margin the RES Initial Margin of 1.20% per annum (and as changed on any Reset Date); and

Tax Rate the Australian corporate tax rate applicable to the franking account of IAG as at the Interest Payment Date expressed as a decimal. As at the date of this Prospectus, the relevant rate is 30% or, expressed as a decimal in the formula, 0.30.

For the first Interest Payment to be paid on 15 March 2005, the Bank Bill Rate will be the higher of 5.50% per annum (Minimum Bank Bill Rate) and the Bank Bill Rate on the Issue Date. As an example:

The minimum Interest Rate for the first Interest Period is calculated as follows:

Minimum Bank Bill Rate ¹ at least	5.50% per annum
Plus the RES Initial Margin	+ 1.20% per annum
Grossed-up Interest Rate	6.70% per annum
Multiplied by (1 – Tax Rate)	x 0.70
Interest Rate (first Interest Payment Date of 15 March 2005) fully franked	4.69% per annum

Note: 1 The Minimum Bank Bill Rate is for the first Interest Payment only. The actual Bank Bill Rate for the first Interest Payment will be determined on the Issue Date but will be no less than 5.50% per annum.

The Interest Rate set for each Interest Period after the first Interest Payment Date will be calculated using the above formula – except that the Minimum Bank Bill Rate will not apply and the RES Initial Margin may be changed by the Issuer on a Reset Date.

2.2.3 What is the Bank Bill Rate?

The Bank Bill Rate is the 90 day bank bill swap rate which is the primary per annum benchmark interest rate for the Australian money market, commonly used by major Australian financial institutions to lend short-term cash to each other over a 90 day period. The Bank Bill Rate changes to reflect the supply and demand within the cash and currency markets. The graph in Section 7.3.4 illustrates the movement in the 90 day Bank Bill Rate over the last 20 years.

The definition of Bank Bill Rate is in clause 3.1 of the RES Terms and clause 2.1 of the Preference Share Terms.

2.2.4 When will your Interest Payments be paid?

Interest Payments will be paid on Interest Payment Dates (subject to the Interest Payment Tests). Interest Periods are from each Interest Payment Date until the day before the next Interest Payment Date – except for the first Interest Period which is from the Issue Date until (but not including) the first Interest Payment Date on 15 March 2005. After the first Interest Period, your Interest Payment will be determined and paid on the following dates each year:

Interest Rate determined	Interest Payment Date
15 March	15 June
15 June	15 September
15 September	15 December
15 December	15 March

If an Interest Payment Date is not a Business Day, then the Interest Payment Date will be the next Business Day. Any Realisation Date is also an Interest Payment Date. The final Interest Payment Date for any RES on issue is the date that RES are Redeemed, Converted or Exchanged.

To be entitled to an Interest Payment, you must be recorded by the Registry as a RES Holder on the day that is 11 Business Days (or such other period determined by the Directors or under the Listing Rules) before the relevant Interest Payment Date.

2.2.5 Will your Interest Payments be fully franked?

The Issuer expects, but does not guarantee, that Interest Payments will be fully franked. However, if an Interest Payment is not fully franked, then it will be grossed-up for any shortfall in franking. In addition, if there is a change in the Tax Rate, the Interest Rate will reflect that change.

IAG will pay an amount into the Portfolio to enable the Portfolio to have sufficient Net Portfolio Income to pay any grossed-up Interest Payment – see Section 9.3.9.

2.2.6 How will your Interest Payments be paid?

The Issuer will pay your Interest Payments by direct credit into an Australian dollar account of an Australian financial institution nominated by you and recorded by the Registry. If you are issued any RES, then when you are sent your Holding Statement you will receive a form on which you can provide your Australian financial institution account details.

If you do not provide these details to the Registry, or if the direct credit of an Interest Payment to you is unsuccessful, then you will be sent a notice advising you of the amount of the Interest Payment. In that case, the funds are to be held as a non-interest bearing deposit until you or your representative claims the amount (for up to 12 months). No interest will be paid on these amounts.

The Issuer reserves the right to vary the way in which any Interest Payment is paid, according to clause 10.5 of the RES Terms.

2.2.7 Will Interest Payments always be paid?

There is no guarantee that an Interest Payment will always be paid as they are subject to two tests called Interest Payment Tests.

An Interest Payment may not be paid in full or paid at all if:

- Test 1 – as at the Interest Payment Date, the Interest Payment is greater than the Distributable Portfolio Income Amount (which is the net cash income received on or in respect of the Portfolio in the relevant Interest Period divided by the number of RES on issue at the end of that Interest Period). Therefore, Interest Payments depend on the performance of the Portfolio – see Section 5.3.3; and
- Test 2 – the IAG Profits Test is not satisfied. If both of the following apply, an Interest Payment may not be paid at all:
 - IAG does not have sufficient profits equal to, or greater than, the aggregate Interest Payment payable on all RES as at the Interest Payment Date; and
 - IAG has not paid a dividend on any class of its capital (including Ordinary Shares, RPS1 and RPS2) in the 12 month period before the Interest Payment Date.

As at 30 June 2004, IAG profits available for the payment of dividends were \$493 million. Section 6.6.3 provides discussion on possible changes to IAG profits arising from A-IFRS and Section 7.4 provides investment risks associated with the Group's financial performance and position.

If a full Interest Payment cannot be made because of:

- Test 1 – then Interest Payments will be paid up to the Distributable Portfolio Income Amount; or
- Test 2 – then an Interest Payment may not be paid at all.

See clause 3.3 of the RES Terms for the Interest Payment Tests.

2.2.8 What happens if an Interest Payment is not paid in full?

Interest Payments are non-cumulative. Therefore, if an Interest Payment (or part of an Interest Payment) is not paid on any Interest Payment Date, then a RES Holder will not receive that Interest Payment – unless the Issuer, at its discretion, pays an Optional Interest Payment.

If an Interest Payment has not been paid, then you are not entitled to request redemption – unless the Interest Payment Tests have been satisfied and the Interest Payment is not paid within 20 Business Days after the Interest Payment Date. This is a Trigger Event and allows you to request redemption – see Sections 2.6.4 and 2.6.5.

If the Issuer does not pay an Interest Payment because Test 2 has not been satisfied, then a dividend stopper will apply. This dividend stopper means IAG may not pay any dividends or make any return of capital on Ordinary Shares (or any capital that ranks below any preference shares on issue – including below RPS1, RPS2 and Preference Shares), without the approval of RES Holders – unless:

- the Issuer pays four consecutive Interest Payments – stated to be payable after the Interest Payment Date when the Interest Payment was not paid;
- the Issuer pays an Optional Interest Payment equal to unpaid Interest Payments for the last 12 months; or
- all RES have been Exchanged, Redeemed or Converted.

This dividend stopper is described in clause 3.6 of the RES Terms.

If RES are Exchanged while the dividend stopper is applying to IAG then the dividend stopper will continue to apply to IAG until it is removed according to clause 2.8 of the Preference Share Terms – see Section 2.9.7.

2.3 Portfolio

2.3.1 What is the Portfolio?

The Portfolio consists of investments in high quality, short-dated fixed interest securities and is owned by IAG Portfolio. IAG Portfolio will grant security over the Portfolio to secure the Issuer's obligations to RES Holders – primarily to pay Interest Payments and the Redemption Amount if due and payable. The arrangements under which the Portfolio exists are contained in the PMA which is summarised in Section 9.3.

The Portfolio Manager will manage the Portfolio according to the Investment Mandate. The Investment Mandate qualifies the Portfolio for an Australian Bond Fund Rating of 'AAAF' by S&P. According to S&P, funds rated 'AAAF' have extremely strong protection against losses from credit default. See Section 5.3 for a description of the Portfolio and Sections 7.1.1 and 7.1.2 for the key investment risks associated with the Portfolio.

2.3.2 What is the risk of a loss or reduced income on the Portfolio?

The Portfolio Manager is required to do all things reasonably within its power to maintain the Australian Bond Fund Rating of 'AAAF' by S&P. However, there is always a possibility that the Portfolio will suffer losses or that the Net Portfolio Income will not be sufficient to pay Interest Payments. This may result from a number of factors described in Sections 5.3.3 and 5.3.4.

The Net Portfolio Income is important because the Distributable Portfolio Income Amount is calculated as the Net Portfolio Income for an Interest Period divided by the number of RES on issue at the end of that Interest Period and therefore determines whether a full Interest Payment can be paid.

If an administrative error causes there to be insufficient Net Portfolio Income to make an Interest Payment, then provisions have been made so that IAL may, at its discretion and without commitment, lend money to IAG Portfolio on any Interest Payment Date to ensure sufficient Net Portfolio Income is available. The amount lent is included in Net Portfolio Income and is repayable out of Net Portfolio Income in later periods (after Interest Payments are paid).

2.3.3 What happens if there are losses sustained by the Portfolio?

RES Holders bear the risk of the performance and creditworthiness of the Portfolio. The Interest Payments and the Redemption Amount may be reduced if there has been a default or loss on the Portfolio Securities.

If the Portfolio has sustained a loss but is able to generate Net Portfolio Income in excess of the aggregate Interest Payment due on an Interest Payment Date, then that excess is to be reinvested into the Portfolio up to the extent of any loss.

If, after a Write-Off of any Portfolio Securities, IAG Portfolio is later able to recover any amount from the debt obligation, then this amount will be included within the Net Portfolio Income for the Interest Period in which it is recovered.

2.4 Reset provisions

2.4.1 What are Reset Dates?

Reset Dates are dates on which:

- the Issuer may change some of the terms of RES – see Section 2.4.2;
- the Issuer may Redeem or Convert some or all of your RES – see Section 2.6.11; and

Before a Reset Date you may request redemption of some or all of your RES – see Section 2.6.4.

The first Reset Date is 15 March 2010. Reset Dates after the first Reset Date are expected to be every five years. The Issuer may vary the period to the next Reset Date on any Reset Date.

2.4.2 What terms may change on a Reset Date?

On a Reset Date, the Issuer may change any or all of the following terms:

- the next Reset Date;
- the RES Margin; or
- the RES Conversion Discount.

If the Issuer changes any of these terms, then the new terms apply from the Reset Date on which they change until the next Reset Date.

2.4.3 Will you be notified if any terms are to change on a Reset Date?

Yes. At least 50 Business Days before a Reset Date, the Issuer will send you a notice of any terms it intends to change at the next Reset Date.

If the Issuer does not send this notice, then the terms that exist on the relevant Reset Date will continue to apply until the next Reset Date.

2.5 Exchange of RES

2.5.1 What is Exchange?

Exchange is the process through which, if IAG exercises its Exchange Right, some or all of your RES are Exchanged for Preference Shares.

IAG has the right to exercise its Exchange Right for Preference Shares at any time subject to the conditions in Section 2.5.2. The Issuer has agreed that, if IAG does this, then it will Redeem RES and the Redemption Amount will be used to pay the Preference Share Issue Price. IAG will then deliver the Preference Shares to RES Holders.

The process of Exchange is detailed in clause 8 of the RES Terms.

2.5.2 When can IAG exercise its Exchange Right?

IAG may exercise its Exchange Right for some or all of your RES at any time. It can do that by giving an Exchange Notice to you stating:

- the Preference Share Issue Date;
- the number of RES to be Exchanged;
- the Preference Share Initial Margin – the RES Margin as at the notice date; and
- the Preference Share Conversion Discount – the RES Conversion Discount as at the notice date.

IAG may exercise its Exchange Right subject to the following conditions:

- Exchange may only happen on up to two occasions;
- the number of RES to be Exchanged must be a minimum of two million RES and in whole multiples of 10,000; and
- Exchange must be for a number that leaves either no, or at least two million, RES on issue.

The reason for these conditions is to provide for adequate liquidity on ASX of both RES and Preference Shares that may be on issue after an Exchange.

IAG may not exercise its Exchange Right if:

- the Issuer, IAG or IAG Portfolio suffers a Winding-Up Event; or
- a RES Holder has requested Redemption and it is 25 Business Days or less before the Realisation Date.

2.5.3 What would cause IAG to exercise its Exchange Right?

The issue of RES enhances IAG's capital structure by providing certainty now of access to qualifying Tier 1 Capital at any time – particularly in market conditions that are less favourable or less certain. The circumstances when IAG may exercise its Exchange Right could include a severe fall in equity markets (like that experienced in October 1987), or major catastrophes that are beyond the limits of the Group's reinsurance arrangements (there have been no major catastrophes that are beyond these limits in Australia or New Zealand to date).

2.5.4 Can you request Exchange of RES?

You are not able to request Exchange of your RES.

2.5.5 What will you receive on Exchange?

On Exchange, you will receive one Preference Share for each RES. At the same time as it issues Preference Shares to you, IAG must notify you of:

- the Preference Share Issue Price – which is the Redemption Amount on the Preference Share Issue Date;
- the Preference Share Initial Margin – which is the RES Margin on the Preference Share Issue Date; and
- the Preference Share Conversion Discount – which is the RES Conversion Discount on the Preference Share Issue Date.

Preference Shares will be issued to you no sooner than 10 Business Days and no later than 90 Business Days after IAG exercises its Exchange Right.

2.6 Redemption or Conversion of RES

2.6.1 What is Redemption?

Redemption of RES is the process through which you receive an amount of cash equal to the Redemption Amount for each of your RES that are Redeemed – see Section 2.6.8.

2.6.2 What is Conversion?

Conversion of RES is the process through which you receive a number of Ordinary Shares with a total value equal to the Redemption Amount (taking into account the RES Conversion Discount) for each of your RES that are being Converted – see Section 2.6.7.

2.6.3 Who can initiate Redemption or Conversion?

Redemption or Conversion of RES can be initiated by:

- you – if you request redemption in the circumstances described in Section 2.6.4 (however you cannot request Conversion); or
- the Issuer – in the circumstances described in Section 2.6.10.

2.6.4 When can you request redemption?

You can request redemption by delivering a notice to the Issuer:

- at least 35 Business Days (but no more than 50 Business Days) before a Reset Date; or
- within 20 Business Days after the Issuer publishes a notice that a Trigger Event has occurred.

2.6.5 What is a Trigger Event?

On the occurrence of a Trigger Event you may request redemption.

A Trigger Event means:

- an Interest Payment is not paid in full within 20 Business Days of the relevant Interest Payment Date (unless it is not paid because the Interest Payment Tests are not satisfied);
- a Liquidation Event occurs in relation to IAG or a Liquidation Event (other than a Winding-Up Event) occurs in relation to the Issuer or IAG Portfolio – see Section 2.6.6;
- Ordinary Shares are suspended from trading on ASX for more than 20 consecutive Business Days;
- IAG announces its intention to sell all, or substantially all, of its business, undertaking or assets (except in the case of a solvent reconstruction); or
- the Issuer or IAG Portfolio is no longer directly, or indirectly, a subsidiary of IAG.

2.6.6 What is a Liquidation Event?

A Liquidation Event is an insolvency-type event (for example, appointment of a liquidator) in relation to the Issuer, IAG or IAG Portfolio.

Liquidation Event is defined in clause 16.2 of the RES Terms.

2.6.7 What happens if you request redemption?

If you request redemption, then the Issuer must do one or more of the following to each RES that you request to be redeemed:

- Redeem the RES for a cash amount equal to the Redemption Amount – see Section 2.6.8;
- Convert the RES into a number of Ordinary Shares calculated according to the Conversion Number with a value equivalent to the Redemption Amount – see Section 2.6.9; or
- sell your RES to a third party on your behalf for the Issue Price (\$100) plus any accrued Interest Payments, and deliver to you the cash proceeds.

IAG may exercise its Exchange Right at this time subject to conditions described in Section 2.5.2.

2.6.8 What is the Redemption Amount?

The Redemption Amount is \$100. However, if the Distributable Portfolio Proceeds Amount is less than \$100, then the Redemption Amount will be reduced to the Distributable Portfolio Proceeds Amount (which is essentially the net proceeds received on a realisation of a relevant amount of the Portfolio divided by the number of RES then being Redeemed, Converted or Exchanged). Therefore, the Redemption Amount depends on the performance of the Portfolio – see Section 5.3.4.

2.6.9 If your RES are Converted, how many Ordinary Shares will you receive?

On Conversion, the number of Ordinary Shares you will receive will be determined using the Conversion Number. The Conversion Number will be calculated by reference to the Redemption Amount and the VWAP on the 20 Business Days immediately before the Realisation Date. The Conversion Number formula is:

$$\text{Conversion Number} = \frac{\text{Redemption Amount}}{\text{VWAP} \times (1 - \text{RES Conversion Discount})}$$

The Conversion Number includes a 2.50% discount to the VWAP called the RES Conversion Discount, which the Issuer may change on any Reset Date.

The Conversion Number formula is in clause 7 of the RES Terms.

The Realisation Date on which you will receive Ordinary Shares on Conversion is determined in:

- clause 5.2 of the RES Terms, if the Issuer initiates Conversion; and
- clause 6.5 of the RES Terms, if you send a notice requesting redemption and the Issuer chooses to Convert your RES according to clause 6.7 of the RES Terms.

On the Realisation Date, the Issuer must notify you of:

- the Ordinary Share Issue Price that has been used to calculate the Conversion Number; and
- the total number of Ordinary Shares you will be issued.

2.6.10 When can the Issuer initiate Redemption or Conversion?

The Issuer may initiate Redemption or Conversion:

- of all or some RES on issue – at any time if a Regulatory Event – see Section 2.6.12; Tax Event – see Section 2.6.13; or Acquisition Event – see Section 2.6.14 has occurred;
- of all or some RES on issue – on any Reset Date by giving a notice no less than 35 Business Days before the Reset Date; or
- of all (but not some only) RES on issue – at any time if there is less than one million RES on issue.

2.6.11 What happens if the Issuer initiates Redemption or Conversion?

If the Issuer initiates Redemption or Conversion, then you will receive for each RES either:

- a cash amount equal to the Redemption Amount; or
- a number of Ordinary Shares calculated according to the Conversion Number – see Section 2.6.9.

2.6.12 What is a Regulatory Event?

On a Regulatory Event, the Issuer may initiate Redemption or Conversion.

A Regulatory Event occurs when:

- the Issuer or IAG becomes aware of legal, regulatory, administrative or interpretational changes that become effective or are announced on or after the Issue Date that would impose unacceptable conditions on the Issuer or IAG if RES remain on issue;
- IAG decides that it is not, or will no longer be, entitled to treat the Preference Shares, if issued, as Tier 1 Capital; or
- IAG decides that it will not be entitled to treat the asset in respect of the Portfolio, and the liability in respect of RES, as offset according to Australian Accounting Standards so that only the net amount is reported in the Group's statement of financial position.

Regulatory Event is defined in clause 16.2 of the RES Terms.

2.6.13 What is a Tax Event?

On a Tax Event, the Issuer may initiate Redemption or Conversion.

A Tax Event occurs when the Issuer or IAG receives professional advice that, as a result of a change in Australian or New Zealand tax law on or after the Issue Date, there is a more than insubstantial risk that the Issuer or IAG (or both) would be exposed to a more than insignificant increase in its costs in relation to RES on issue.

Tax Event is defined in clause 16.2 of the RES Terms.

2.6.14 What is an Acquisition Event?

On an Acquisition Event, the Issuer may initiate Redemption or Conversion.

An Acquisition Event occurs when:

- a takeover bid is made for Ordinary Shares, the offer is or becomes unconditional and either the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue or the IAG Directors recommend acceptance of the takeover bid; or
- a court approves a scheme of arrangement which will result in a person having a relevant interest in more than 50% of the Ordinary Shares on issue.

Acquisition Event is defined in clause 16.2 of the RES Terms.

2.7 Ranking of RES

2.7.1 Where do RES rank?

RES are secured limited recourse debt obligations of the Issuer, ranking equally among themselves. IAG does not guarantee or provide other credit support for RES. As RES are issued by the Issuer rather than IAG, the rights of RES Holders rank separately to the rights of securities issued by IAG (unless RES are Converted or Exchanged).

2.7.2 In a winding-up of the Issuer, what will you receive?

On a winding-up of the Issuer or IAG Portfolio, RES Holders will receive the Redemption Amount in cash. A Winding-Up Event for IAG is a Trigger Event and allows you to request Redemption of your RES.

2.7.3 Is the Issuer or IAG restricted in relation to other securities it may issue?

The Issuer or IAG may issue other securities (including other notes or preference shares which rank equally with, or behind, RES or Preference Shares) without the approval of RES Holders or Preference Shareholders. In addition, IAG may also issue other securities that rank equally with, or behind, the RES or Preference Shares for interest, dividends or repayment of capital in a winding-up of IAG. For the investment risks associated with the ability of the Issuer or IAG to issue other securities – see Section 7.3.10.

2.7.4 Do RES carry any participation rights?

RES do not carry a right to participate in issues of securities or capital reconstructions of the Issuer or IAG.

Preference Shares

2.8 Description of Preference Shares

2.8.1 What are Preference Shares?

Preference Shares are fully paid preference shares in the capital of IAG issued according to the Preference Share Terms.

Preference Shares:

- entitle Preference Shareholders to receive preferred, non-cumulative, quarterly, floating rate Dividends which are expected to be fully franked – subject to Dividend Payment Tests – see Section 2.9;
- on the Step-Up Date, are entitled to a one time step-up of 1.00% per annum on the Preference Share Initial Margin;
- may be Redeemed or Converted by IAG on any Dividend Payment Date on or after the Step-Up Date and in certain other limited circumstances – see Section 2.10;
- rank equally with RPS1 and RPS2 – see Section 2.11; and
- if issued, are expected to qualify as Tier 1 Capital.

2.8.2 Will Preference Shares be quoted on ASX?

If Preference Shares are to be issued, then IAG will apply prior to their issue for Preference Shares to be quoted on ASX. Quotation is not guaranteed or automatic. Quotation on ASX will allow you to realise or increase your investment in Preference Shares by selling or buying Preference Shares on ASX at the then market price. There can be no assurance as to what that price will be.

If Preference Shares are quoted on ASX, then Preference Shares will be able to be purchased or sold through any stockbroker in Australia. Any Preference Shares issued will be quoted separately to RES, RPS1, RPS2 and Ordinary Shares. If Preference Shares are issued in two tranches, then each tranche will be quoted separately.

2.9 Dividends

2.9.1 What is a Dividend?

Dividends are preferred, non-cumulative, quarterly, floating rate payments which will be calculated in the same way as Interest Payments – see Section 2.9.2 and are subject to Dividend Payment Tests – see Section 2.9.6.

Each Dividend per Preference Share will be calculated according to the following formula:

$$\text{Dividend} = \frac{\text{Dividend Rate} \times \text{Preference Share Issue Price} \times \text{N}}{365}$$

Dividend Rate the rate calculated in Section 2.9.2;

Preference Share Issue Price the Redemption Amount on the Realisation Date used to pay the Preference Share Issue Price, and which may be less than \$100; and

N the number of days in the Dividend Period.

2.9.2 How will the Dividend Rate be determined?

The Dividend Rate is a floating rate and will be set on the first Business Day of each Dividend Period by observing the Bank Bill Rate and then using the following formula:

$$\text{Dividend Rate} = (\text{Bank Bill Rate} + \text{Preference Share Margin}) \times (1 - \text{Tax Rate})$$

Bank Bill Rate	determined on a similar basis as for RES;
Preference Share Margin	the RES Margin as at the Preference Share Issue Date (Preference Share Initial Margin) until the Step-Up Date when it will increase by a one time step-up of 1.00% per annum; and
Tax Rate	determined on the same basis as for RES.

2.9.3 When will your Dividends be paid?

Dividends will be paid on the same dates as the Issuer would have paid Interest Payments being 15 March, 15 June, 15 September and 15 December (or the next Business Day) and on any Preference Share Exchange Date.

If a Dividend Payment Date is not a Business Day, then the Dividend Payment Date will be the next Business Day.

2.9.4 Will your Dividends be fully franked?

IAG expects, but does not guarantee, that Dividends will be fully franked. However, if a Dividend is not fully franked, then it will be grossed-up for any shortfall in franking according to clause 2.2 of the Preference Share Terms. In addition, if there is a change in the Tax Rate, the Dividend Rate will reflect that change.

2.9.5 How will your Dividends be paid?

IAG will pay your Dividends by direct credit into an account nominated by Preference Shareholders at an Australian financial institution in the same manner as Interest Payments. The account details disclosed for the purposes of Interest Payments will also be used for the purpose of Dividends – unless you notify a change to those details.

2.9.6 Will Dividends always be paid?

There is no guarantee that a Dividend will always be paid as they are subject to five tests called Dividend Payment Tests. A Dividend may not be paid at all if one or more of these tests are not satisfied:

- the Directors, at their discretion, declaring the Dividend to be payable;
- IAG having profits available for the payment of the Dividend, as required by the Corporations Act;
- IAG and the Group still complying with APRA's capital adequacy guidelines after the payment of the Dividend, as those guidelines are applied at that time;
- the amount of the Dividend not exceeding the profits after tax of the Group (as disclosed in the latest publicly available financial results for the Group) for the immediately preceding two half yearly financial periods less the aggregate amount of dividends or other distributions paid or payable by a member of the Group in the 12 month period up to and including the Dividend Payment Date unless APRA indicates that it has no objection – referred to as APRA Distributable Profits Test; and
- APRA having not objected to the payment of the Dividend.

See clause 2.3 of the Preference Share Terms for the Dividend Payment Tests.

2.9.7 What happens if a Dividend is not paid in full?

Dividends are non-cumulative. Therefore, if a Dividend (or part of a Dividend) is not paid on any Dividend Payment Date, then a Preference Shareholder will not receive that Dividend – unless IAG (at its discretion), pays an Optional Dividend.

If a Dividend has not been paid in full on any Dividend Payment Date (or within 20 Business Days after the Dividend Payment Date), then a dividend stopper will apply. This dividend stopper means IAG may not pay any dividend or make any return of capital on Ordinary Shares (or any capital that ranks below any Preference Shares), without the approval of Preference Shareholders – unless:

- IAG pays four consecutive dividends stated to be payable after the Dividend Payment Date when the Dividend was not paid;
- IAG pays an Optional Dividend equal to unpaid dividends for the last 12 months; or
- all Preference Shares are Redeemed or Converted.

The dividend stopper is described in clause 2.8 of the Preference Share Terms.

If at the time of Exchange the dividend stopper is applied to IAG according to the RES Terms, then a dividend stopper will continue to apply to IAG for the Preference Shares that are issued at Exchange. This dividend stopper is then able to be removed in the same manner as above according to clause 2.8 of the Preference Share Terms.

2.10 Redemption or Conversion of Preference Shares

2.10.1 What is Redemption or Conversion of Preference Shares?

Redemption is the process through which IAG may Redeem Preference Shares for an amount of cash equal to the Preference Share Issue Price. Conversion is the process through which IAG may Convert Preference Shares for a number of Ordinary Shares calculated according to the Conversion Number with a value equivalent to the Preference Share Issue Price.

2.10.2 Can you request Redemption or Conversion of Preference Shares?

You are not able to request Redemption or Conversion of your Preference Shares.

2.10.3 When can IAG initiate Redemption or Conversion?

IAG may initiate Redemption (subject to APRA approval) or Conversion of all or some Preference Shares:

- on the Step-Up Date or any Dividend Payment Date after the Step-Up Date, by delivering a Preference Share Exchange Notice to you at least 35 Business Days (but no more than three months) before the Step-Up Date or the relevant Dividend Payment Date;
- at any time if the number of Preference Shares on issue is less than one million (for all, not some only, Preference Shares on issue);
- at any time after a Regulatory Event or Tax Event; or
- no later than 35 Business Days after IAG has announced an Acquisition Event (for all, not some only Preference Shares).

An Acquisition Event in relation to Preference Shares is the same as an Acquisition Event in relation to RES.

A Regulatory Event and a Tax Event are defined slightly differently in the Preference Share Terms compared to the RES Terms reflecting the different tax and accounting considerations which affect the Preference Shares compared to RES – see clause 16.2 of the RES Terms and clause 9.2 of the Preference Share Terms.

2.10.4 If your Preference Shares are Converted, how many Ordinary Shares will you receive?

The number of Ordinary Shares you will be issued on Conversion is calculated in the same way as for Conversion of RES – see Section 2.6.7. The Preference Share Conversion Discount will be the same as the RES Conversion Discount at the time the RES were Exchanged. See clause 3.7 of the Preference Share Terms.

2.10.5 What happens if IAG does not initiate Redemption or Conversion by the Step-Up Date?

If IAG does not Redeem or Convert by the Step-Up Date, then the Preference Share Initial Margin for each Dividend Period commencing on or after that date will be increased by a one time step-up of 1.00% per annum.

2.11 Ranking and voting rights of Preference Shares

2.11.1 Where do Preference Shares rank?

Dividends will be paid in priority to any dividends on Ordinary Shares. In a winding-up of IAG, the Preference Shares will rank for a return of capital behind all creditors of IAG, equally with RPS1 and RPS2, and ahead of Ordinary Shares. The Preference Shares rank equally with RPS1 and RPS2 in all respects. IAG reserves the right in the future to issue additional Preference Shares (or other preference shares ranking equally with or behind the Preference Shares) without the approval of Preference Shareholders.

Acquisition Event, Regulatory Event and Tax Event are defined in clause 9.2 of the Preference Share Terms.

2.11.2 In a winding-up of IAG, what will Preference Shareholders receive?

On a winding-up of IAG, Preference Shareholders will be entitled to a return of capital up to the Preference Share Issue Price and payment of any declared but unpaid Dividends – depending on the amount of funds remaining in IAG after all creditors and liabilities ranking ahead of Preference Shares have been paid. Preference Shareholders rank ahead of Ordinary Shareholders in a winding-up for a return of capital (not exceeding the Preference Share Issue Price) and for any Dividends declared but unpaid.

If IAG's liabilities exceed its assets on a winding-up, then there is a risk that Preference Shareholders will not receive a full (or any) return of capital or payment of any outstanding Dividends.

2.11.3 Do Preference Shareholders have voting rights?

Preference Shareholders are not entitled to vote at any general meeting of IAG – except in the limited circumstances prescribed by the Listing Rules and as described in the Preference Share Terms (see clause 5 of the Preference Share Terms). If these circumstances apply, then each Preference Share will entitle the relevant Preference Shareholder to one vote. These circumstances include if a proposal is made that affects the rights attached to Preference Shares and if a Dividend or part of a Dividend is in arrears.

2.11.4 Is IAG restricted in relation to other securities it may issue?

IAG reserves the right in the future to issue additional Preference Shares (or other preference shares ranking equally with or behind the Preference Shares) without the approval of Preference Shareholders.

2.11.5 Do Preference Shares carry any participation rights?

Preference Shares do not confer any further right to participate in issues of securities or capital reconstructions of IAG.

Additional key questions

2.12 What are the risks of investing in the Offer?

There are particular investment risks associated with investing in the Offer. There are also general risks associated with the Group and the general insurance industry.

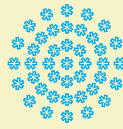
The investment risks are in Section 7.

2.13 What are the taxation consequences of investing in the Offer?

The taxation consequences of investing in the Offer will depend on your individual circumstances. You should obtain your own taxation advice before you invest in the Offer. A general outline of the Australian taxation consequences for investors in RES and Preference Shares is provided in the Taxation Letter from Mallesons Stephen Jaques in Section 8.

2.14 How can you find out more information about the Offer?

If, after reading this Prospectus, you have any questions, then please contact your accountant, stockbroker, lawyer or other professional adviser or call the **RES Information Line on 1300 666 635**.



Applying for RES

Section 3

This Section sets out what you must do if you wish to apply for RES, it covers:

- who may apply;
- when to apply;
- how to apply;
- how to pay;
- completing an Application Form;
- where to send your completed Application Form and Application Payment; and
- enquiries.

3.1 Who may apply

You may apply for RES if you are:

- an Australian resident retail client of a Co-Manager or Participating Broker who has received a broker firm Allocation of RES from a Senior Co-Manager, Co-Manager or Participating Broker – through the Broker Firm Offer;
- an Eligible RPS Holder – through the RPS Holder Offer; or
- an Australian resident member of the general public – through the General Offer.

No action has been taken to register or qualify RES or otherwise permit a public offering of RES outside Australia where such an offer is made according to the laws in that jurisdiction. See Section 10.7 for details on foreign selling restrictions.

The Offer constituted by this Prospectus in electronic form is available only to persons receiving an electronic copy of this Prospectus and the Application Forms in Australia.

3.2 When to apply

The Offer is expected to open on 30 November 2004.

The RPS Holder Offer and the General Offer have a different Closing Date to the Broker Firm Offer. The Closing Date for:

- the RPS Holder Offer and the General Offer is expected to be 5.00pm on 5 January 2005. Completed Application Forms and Application Payments must be received by the Registry no later than 5.00pm on 5 January 2005; and
- the Broker Firm Offer is expected to be 10.00am on 7 January 2005. Completed Application Forms and Application Payments must be received by Senior Co-Managers, Co-Managers and Participating Brokers according to arrangements made between them and their Australian resident retail clients – see Section 3.3.1.

The Issuer, IAG and the Lead Manager & Bookrunner may agree to extend the Closing Dates or close the Offer early without notice. You are encouraged to lodge your Application as soon as possible after the Opening Date.

3.3 How to apply

3.3.1 Broker Firm Applicants

If you are a Broker Firm Applicant, then you should contact your Senior Co-Manager, Co-Manager or Participating Broker for information about how to submit an Application Form and Application Payment.

The Application process for Broker Firm Applicants differs in two important respects from the process described for Eligible RPS Holders or Australian resident members of the general public. For Broker Firm Applicants:

- Application Payments must be made payable to the Senior Co-Manager, Co-Manager or Participating Broker (not to 'IAG RES Offer'); and
- your completed Application Form and Application Payment must be delivered to the Senior Co-Manager, Co-Manager or Participating Broker directly (not to the Registry).

These differences and any other requirements can be explained to Broker Firm Applicants in further detail by a Senior Co-Manager, Co-Manager or Participating Broker.

3.3.2 Eligible RPS Holders

If you are an Eligible RPS Holder and want to apply for RES, then you must complete your yellow personalised Application Form. Your completed yellow personalised Application Form and Application Payment should be returned to either of the addresses set out in Section 3.6.

3.3.3 General Offer Applicants

If you are an Australian resident member of the general public and want to apply for RES, then you must complete the blue Application Form in the back of this Prospectus (including an electronic copy) according to the instructions set out in the back of this Prospectus. Your completed blue Application Form and Application Payment should be returned to either of the addresses set out in Section 3.6.

3.4 How to pay

3.4.1 Minimum Application amount

The application price of each RES is \$100, also referred to as the Issue Price. Your Application must be for a minimum of 50 RES (\$5,000). If your Application is for more than 50 RES, then you must apply in incremental multiples of 10 RES – that is, for incremental multiples of at least \$1,000.

The Issuer, IAG and the Lead Manager & Bookrunner reserve the right to reject any Application, or to Allocate any Applicant a lesser number of RES than applied for, including less than the minimum of 50 RES (\$5,000).

3.4.2 Application Payments

If you are an Eligible RPS Holder or General Offer Applicant, then your completed Application Form must be accompanied by a cheque(s) in Australian dollars drawn on an Australian branch of a financial institution – made payable to '**IAG RES Offer**'. Cheque(s) should be crossed 'not negotiable'. Cash payments or money orders will not be accepted.

If you are a Broker Firm Applicant, then you should make your Application Payment according to arrangements made between you and a Senior Co-Manager, Co-Manager or Participating Broker – see Section 3.3.1.

All Application Payments received before RES are issued will be held by the Issuer in a trust account established solely for the purpose of depositing Application Payments received. Any interest that accrues on the trust account will be retained by the Issuer.

3.4.3 Brokerage and stamp duty

No brokerage or stamp duty is payable on your Application. You may have to pay brokerage on any later sale of your RES on ASX after quotation.

3.4.4 Refunds

If you are an Eligible RPS Holder or General Offer Applicant and you are not Allocated any RES or you are Allocated fewer RES than the number that you applied for, including less than the minimum Application of 50 RES, Application Payments will be returned to you (without interest) as soon as possible after the Closing Date.

In addition, if the Offer does not proceed for any reason, Applicants will have their Application Payments refunded to them (without interest) as soon as possible.

3.5 Completing an Application Form

3.5.1 Availability of the Prospectus and Application Forms

Application Forms for the Broker Firm Offer and the General Offer are the blue Application Forms with a guide on how to complete them, included in the back of this Prospectus. An electronic copy of this Prospectus, and the accompanying Application Form(s), will be available to persons in Australia online during the Offer Period on the IAG website at **www.iag.com.au/res**, or from a Senior Co-Manager, Co-Manager or Participating Broker. However, there is no facility for Applications to be submitted electronically except where it may be provided by a Senior Co-Manager, Co-Manager or Participating Broker.

Persons in Australia who receive a copy of this Prospectus in electronic form may obtain a paper copy of this Prospectus, including Application Forms, free of charge during the Offer Period by contacting the **RES Information Line on 1300 666 635**.

To apply as an Eligible RPS Holder, you must apply on the yellow personalised Application Form. To receive a Prospectus and your yellow personalised Application Form, follow the instructions on the letter that was mailed to you by the Issuer on 22 November 2004 and register your interest either:

- online at **www.iag.com.au/res**; or
- by calling the **RES Information Line on 1300 666 635**.

The Issuer intends to mail Prospectuses and yellow personalised Application Forms to Eligible RPS Holders who request them after the Opening Date.

3.5.2 Provision of account details for direct credit of Interest Payments and Dividends

The Issuer will pay your Interest Payments or IAG will pay your Dividends directly into an Australian dollar account of an Australian financial institution nominated by you.

The Registry will send you a personalised direct credit form requesting your account details when your Holding Statement is despatched to you. Please complete and return this direct credit form as soon as possible.

Institutional Investors who do not have a registered address in Australia with the Registry will receive Interest Payments or Dividends by cheque sent to their registered addresses outside Australia.

3.5.3 Provision of Tax File Numbers or Australian Business Numbers

If you are Allocated any RES, then the Registry will provide you with a form (when your Holding Statement is despatched to you) that will request your Tax File Number (TFN), your Australian Business Number (ABN) or both. You do not have to provide your TFN or ABN. However, the Issuer or IAG, as the case may be, might be required to withhold Australian tax at the maximum marginal tax rate (currently 48.5% including the Medicare Levy) on the amount of any Interest Payment or Dividend unless you provide one of the following:

- TFN;
- TFN exemption number (if applicable); or
- ABN (if RES are held in the course of an enterprise carried on by you).

3.5.4 Provision of personal information

The information about you included on an Application Form is used for the purposes of processing the Application and, if the Application is successful, to administer your RES (and, if they are issued in the future upon Exchange or Conversion, your holding of Preference Shares or Ordinary Shares). Please see Section 10.10 for information about the acknowledgements and privacy statement in relation to personal information that you provide the Issuer and IAG by completing an Application Form.

3.6 Where to send your completed Application Form and Application Payment

If you are a Broker Firm Applicant, then you should return your completed Application Form and Application Payment according to arrangements you have made with a Senior Co-Manager, Co-Manager or Participating Broker – see Section 3.3.1.

If you are applying through the RPS Holder Offer or the General Offer, your completed Application Form and Application Payment should be mailed or delivered to the Registry:

by mail to the Registry:

Computershare Investor Services Pty Limited
Reply Paid 1486
Sydney NSW 2001

or

by delivery to the Registry:

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000.

Application Forms and Application Payments will not be accepted at any other address (including the Issuer's or IAG's registered office or any other IAG office) ***or by any other means***.

3.7 Enquiries

You can call the **RES Information Line on 1300 666 635** if:

- you have further enquiries about how to apply for RES;
- you require assistance to complete the Application Form; or
- you require additional copies of this Prospectus and its Application Forms.

If you are unclear in relation to any matter or are uncertain if RES or Preference Shares are a suitable investment for you, you should consult your accountant, stockbroker, lawyer or other professional adviser. If you are a Broker Firm Applicant and you are in any doubt what action you should take, you should immediately contact your Senior Co-Manager, Co-Manager or Participating Broker.



Allocation and allotment

Section 4

This Section sets out details of the Issuer's intentions in relation to:

- who the Offer is made to;
- the Allocation policy; and
- details about ASX quotation, trading and despatch of Holding Statements.

4.1 The Offer

The offer of RES comprises:

- an Institutional Offer – made to certain Institutional Investors who bid for RES in the Bookbuild conducted by the Lead Manager & Bookrunner;
- a Broker Firm Offer – made to Australian resident retail clients of a Senior Co-Manager, Co-Manager or Participating Broker who apply for a broker firm Allocation from the relevant Senior Co-Manager, Co-Manager or Participating Broker;
- an RPS Holder Offer – made to Eligible RPS Holders; and
- a General Offer – made to Australian resident members of the general public.

There is no minimum amount to be raised by the Offer and the Issuer may accept any Applications. Whilst there is no specified proportion of the Offer that may be Allocated to the RPS Holder Offer or General Offer, the Issuer, IAG and the Lead Manager & Bookrunner reserve the right to treat Applications in excess of \$250,000 as part of the Institutional Offer.

4.2 Allocation policy

The Issuer intends to issue up to five million RES to raise up to \$500 million. If there is sufficient demand, the Issuer and IAG in consultation with the Lead Manager & Bookrunner, may agree to accept oversubscriptions of up to an additional 500,000 RES to raise up to an additional \$50 million.

The Allocation policy for Institutional Investors, Senior Co-Managers, Co-Managers and Participating Brokers has been determined following the Bookbuild – see Section 4.2.1. The Issuer, IAG and the Lead Manager & Bookrunner have the right to nominate the persons to whom RES will be Allocated, including in respect of firm Allocations to Institutional Investors, Senior Co-Managers, Co-Managers and Participating Brokers.

4.2.1 Bookbuild

The Bookbuild is a process that was conducted by the Lead Manager & Bookrunner before the Opening Date. In this process, Institutional Investors, Senior Co-Managers, Co-Managers and other brokers were invited to lodge bids for RES within the RES Initial Margin range. On the basis of those bids, the Issuer, IAG and the Lead Manager & Bookrunner determined the RES Initial Margin and firm Allocations to Institutional Investors, Senior Co-Managers, Co-Managers and other brokers (the other brokers who received a firm Allocation are known as Participating Brokers). The Bookbuild was conducted according to the terms and conditions agreed by the Issuer, IAG and the Lead Manager & Bookrunner under the Offer Management Agreement summarised in Section 9.5. RES Allocated through the Bookbuild will be issued according to Applications made under this Prospectus.

4.2.2 Settlement underwriting

The Lead Manager & Bookrunner has agreed with the Issuer and IAG to settlement underwrite the number of RES Allocated to Institutional Investors, Senior Co-Managers, Co-Managers and Participating Brokers through the Bookbuild. According to the Offer Management Agreement, as part of this settlement underwriting, the Lead Manager & Bookrunner will pay to the Issuer, or procure payment to the Issuer of, the aggregate proceeds raised from Institutional Investors, Senior Co-Managers, Co-Managers and Participating Brokers through the Bookbuild.

The Offer Management Agreement may be terminated by the Lead Manager & Bookrunner in certain circumstances. If the Lead Manager & Bookrunner does terminate Institutional Investors, Senior Co-Managers, Co-Managers and Participating Brokers who participated in the Bookbuild can withdraw their firm Allocations.

4.2.3 Allocations

Institutional Offer	Allocations to Institutional Investors have been determined by the Lead Manager & Bookrunner according to the terms and conditions of the Bookbuild.
Broker Firm Offer	Allocations to Broker Firm Applicants by a Senior Co-Manager, Co-Manager or Participating Broker are at the discretion of that Senior Co-Manager, Co-Manager or Participating Broker. Allocations to Senior Co-Managers, Co-Managers or Participating Brokers are subject to the terms and conditions of the Bookbuild.
RPS Holder Offer	<p>Eligible RPS Holders, who submit a yellow personalised Application Form and Application Payment, may receive an Allocation, subject to the rights of the Issuer, IAG and the Lead Manager & Bookrunner.¹</p> <p>Applications through the RPS Holder Offer will be given preferential treatment in Allocations over Applications received through the General Offer.</p> <p>No assurance is given that any Eligible RPS Holder will receive an Allocation.</p>
General Offer	<p>Australian resident members of the general public who submit a blue Application Form from the back of this Prospectus and Application Payment will receive an Allocation of RES subject to the rights of the Issuer, IAG and the Lead Manager & Bookrunner.¹</p> <p>No assurance is given that any Applicant through the General Offer will receive an Allocation.</p>

Note: 1 The Issuer, IAG and the Lead Manager & Bookrunner reserve the right (at their discretion): to Allocate all RES for which an Application is made; to reject any Application; or, to Allocate to any Applicant through the RPS Holder Offer or General Offer a lesser number of RES than that applied for, including less than the minimum Application of 50 RES.

Where no Allocation is made, or the value of RES Allocated is less than the value for which an Application is made, surplus Application Payments will be returned to the Applicant (without interest) as soon as possible. After RES are issued to any Applicants, the Application Payment held in trust will be payable to the Issuer.

Section 9.5.2 provides a description of the fees (including any stamping fee) to be paid to the Lead Manager & Bookrunner, Senior Co-Managers, Co-Managers or Participating Brokers.

4.3 ASX quotation, trading and Holding Statements

4.3.1 ASX quotation

The Issuer has applied for RES to be quoted on ASX. Quotation is not guaranteed or automatic. If ASX does not grant permission for RES to be quoted, RES will not be issued and Application Payments will be refunded (without interest) as soon as possible.

RES will trade under ASX code 'IANG'.

4.3.2 Trading

It is expected that RES will begin trading on ASX on a deferred settlement basis on 12 January 2005. Trading is expected to continue on that basis until 19 January 2005, when it is anticipated that trading of RES will begin on a normal settlement basis. Deferred settlement will occur as a consequence of trading which takes place before entries are made by the Registry in respect of your holdings of RES and before Holding Statements are despatched to you.

You are responsible for confirming your holding before trading in RES. If you sell your RES before you receive your Holding Statement, you do so at your own risk. You may call your Senior Co-Manager, Co-Manager, Participating Broker or the RES Information Line on 1300 666 635 after the Issue Date to enquire about your Allocation.

4.3.3 Holding Statements

The Issuer will apply for RES to participate in CHESS. No certificates will be issued for RES. The Issuer expects that Holding Statements will be despatched to successful Applicants by 14 January 2005.



About IAG Finance (NZ) and the Portfolio

Section 5

This Section sets out details about:

- IAG Finance (NZ) and its pro forma financial information; and
- the Portfolio and its effect on Interest Payments and the Redemption Amount.

5.1 IAG Finance (NZ)

IAG Finance (NZ), through its New Zealand branch, is the Issuer of RES and is a wholly-owned subsidiary of IAG. The Issuer has responsibility for raising finance for the New Zealand operations of the Group and for management of their ongoing treasury requirements. The Issuer has enough working capital to carry out its stated objectives.

Section 5.2 sets out the pro forma financial information of the Issuer as if the Offer had been completed and all RES on issue were subsequently Exchanged as at 30 June 2004.

5.1.1 Use of proceeds of the Offer

The Issuer will lend the New Zealand dollar equivalent of the gross proceeds of the Offer to IAG (NZ) Holdings which will use the proceeds to reduce existing intra-group loans from IAL. The Issuer will obtain the New Zealand dollar equivalent of the gross proceeds of the Offer by swapping them with IAL. IAL will lend the Australian dollar gross proceeds of the Offer to IAG Portfolio.

5.1.2 Board of directors of the Issuer

The board of IAG Finance (NZ) consists of four Directors, who have been selected with regard to their diverse and extensive experience in the finance industry. The Directors of IAG Finance (NZ) are: Mr James Strong, Mr Michael Hawker, Mr Rowan Ross and Mr George Venardos. Mr Michael Woods is alternate Director for Mr Michael Hawker and Mr George Venardos.

James Alexander Strong Chairman and Non-executive Director, Age 60

Mr James Strong is Chairman of IAG Finance (NZ). Mr Strong was appointed Chairman of IAG in August 2001. He is also Chairman of Woolworths Limited, Rip Curl Group Pty Limited, the Sydney Theatre Company and the Australian Business Arts Foundation. He is a director of the Australian Grand Prix Corporation.

Mr Strong was Chief Executive and Managing Director of Qantas Airways Limited from 1993 to 2001. Previous positions he has held include Group Chief Executive of DB Group Limited in New Zealand, National Managing Partner and later Chairman of law firm Corrs Chambers Westgarth, Chief Executive of Trans Australian Airlines (later Australian Airlines) and Executive Director of the Australian Mining Industry Council.

Mr Strong has been admitted as a barrister and solicitor.

Michael John Hawker BSc, FAIBF, FAICD, ASIA Executive Director, Age 45

Mr Michael Hawker is an Executive Director of IAG Finance (NZ). He was appointed Chief Executive Officer and Managing Director of IAG in December 2001.

Before joining the Group, Mr Hawker was Group Executive, Business and Consumer Banking at Westpac Banking Corporation. Previous positions include Executive Director of Citibank International PLC in Europe and Deputy Managing Director of Citibank Limited in Australia.

Mr Hawker was listed by Euromoney as one of the top 50 bankers under the age of 40. In 2000, he was awarded the Australian Banking & Finance Magazine – Millennium Banker of the Year Award, and the Best Insurance Executive Award in 2003 and 2004. He is a recipient of an Australian Sports Medal, having played 25 Rugby Union Internationals for the Australian Wallabies.

Mr Hawker is the President of the Insurance Council of Australia; a director of the Australian Chamber of Commerce and Industry; member of the Federal Treasury's Consumer and Financial Literacy Taskforce; member of the Business Council of Australia; Chair of the New South Wales Juvenile Diabetes Walk to Cure annual fundraising event; and Chairman of the Giant Steps Foundation. He was previously the Chairman of the Australian Financial Markets Association.

Rowan Alexander Ross BEd, BCom, FCPA, FSIA Non-executive Director, Age 56

Mr Rowan Ross is a Non-executive Director of IAG Finance (NZ). He was appointed as an IAG Director in July 2000 and acted as the Chairman from April to August 2001.

Mr Ross is currently Chairman of Sydney IVF Limited. He is the former Chairman of Bankers Trust Investment Bank, former National President of the Securities Institute of Australia and former Chairman of the Sydney Dance Company and the Australian Major Performing Arts Group. He has more than 30 years' experience in investment banking and is an Executive Director of Macquarie Bank Limited.

George Venardos BCom, FCA, DipCM, FCIS, FTIA, MAICD Executive Director, Age 47

Mr George Venardos is an Executive Director of IAG Finance (NZ). Mr Venardos joined IAG in 1998. He is Chief Financial Officer, a role with responsibility for all aspects of the Group's financial and corporate services functions, including asset management, corporate secretariat, finance, investor relations, legal, mergers and acquisitions, strategy and treasury. Before joining IAG, Mr Venardos held the position of Executive Director and General Manager, Finance and Corporate Services, with the Legal & General Group in Australia.

He is the Chairman of the Finance and Accounting Standing Committee for the Insurance Council of Australia. He was awarded the 2003 CFO of the Year at Insto Magazine's Annual Distinction Awards.

Michael Woods Alternate Director, Age 46

Mr Michael Woods is an alternate Director for Mr Hawker and Mr Venardos. Mr Woods joined IAG in 1998. He is Head of Group Finance & Treasury, a role which includes responsibility for group finance, treasury, management accounting, financial reporting, budgeting, forecasting, finance systems and asset management operations.

Mr Woods has over 25 years' experience in the insurance and financial services industry. Before joining IAG, Mr Woods held treasury related roles at other organisations, including KPMG, the Bank of New Zealand and Bankers Trust. He is a member of the Group's Asset & Liability Committee.

5.2 Pro forma financial information

The pro forma financial information in this Section 5.2 presents the expected effect of the Offer on the Issuer as at 30 June 2004 assuming:

- firstly, the Offer was completed on 30 June 2004 and \$500 million was raised through the issue of RES and via intra-group arrangements was invested in the Portfolio; and
- secondly, IAG exercised its Exchange Right as at 30 June 2004 and \$500 million of RES were redeemed by the Issuer and \$500 million of Preference Shares were issued by IAG.

Section 5.2.1 provides the Issuer's pro forma statement of financial position as at 30 June 2004 and Section 5.2.2 provides a discussion of the expected effect on the Issuer's statement of financial performance.

The pro forma financial information is unaudited and has been prepared according to Australian GAAP. Therefore, it does not reflect changes that may result from the implementation of A-IFRS on 1 January 2005. The Issuer does not expect the pro forma statement of financial position for the issue of RES and following Exchange to change materially, although there may be differences in the classification of items.

See Section 6.4 for the pro forma financial information of the Group as if the Offer had been completed and all RES on issue were subsequently Exchanged.

5.2.1 Pro forma statement of financial position

The following table sets out the Issuer's pro forma statement of financial position – adjusted as if the issue of RES were completed on 30 June 2004 and subsequently Exchange took place for all RES on issue as at that date.

1 Issuer

The Issuer was incorporated on 6 October 2004, and as a result as at 30 June 2004 had not yet commenced operations. The Issuer was established to manage the ongoing treasury requirements of the Group's New Zealand operations and as at the date of this Prospectus has no material operating history.

2 Pro forma adjustments – Offer

The pro forma adjustments reflect that when RES are Issued they will be classified as a \$500 million interest-bearing liability in the statement of financial position of the Issuer. The Issuer will firstly swap the Australian dollar proceeds with IAL for an equivalent New Zealand dollar amount. The New Zealand dollars will be lent to IAG (NZ) Holdings by the Issuer who will recognise this loan as an intra-group loan receivable.

IAG Portfolio will grant security over the Portfolio and the Issuer will grant security over the intra-group loan receivable from IAG (NZ) Holdings to secure the Issuer's obligations to RES Holders.

The Issuer will pay transaction costs relating to the Offer of approximately \$12 million. This will be funded by an intra-group loan payable. The transaction costs will be capitalised and amortised in the Issuer's statement of financial performance at approximately \$2.4 million per annum for five years.

3 Pro forma adjustments – Exchange

The pro forma adjustments reflect IAG exercising its Exchange Right in full as at 30 June 2004. This would result in all RES on issue being redeemed and Exchanged for Preference Shares. IAG may exercise its Exchange Right at any time subject to certain conditions – see Section 2.5.2. The pro forma adjustments assume that the Portfolio has not made any gains or losses on any Portfolio Assets at the time of Exchange and as a result, the Net Portfolio Proceeds on Exchange are \$500 million.

The transactions for Exchange, assuming the Net Portfolio Proceeds are \$500 million, will be:

- the Issuer will redeem all RES on issue for \$100 each (\$500 million);
- IAG Portfolio will liquidate the Portfolio and pay the proceeds to IAG upon direction by the Issuer to pay the Preference Share Issue Price of \$100 per Preference Share (\$500 million); and
- the Issuer will receive replacement funding of \$500 million, sourced either internally or externally, to continue its role, managing the ongoing treasury requirements of the Group's New Zealand operations.

If Exchange were to occur before the Issuer had fully amortised the transaction costs, the unamortised amount capitalised on the statement of financial position would be written off in the period the Exchange occurred. The pro forma adjustments assume that no additional transaction costs will be incurred on Exchange.

If the Portfolio has experienced a loss at the time of Exchange, then the same transactions would take place except RES will be redeemed for the Redemption Amount which would be less than \$100 per RES and the Preference Share Issue Price would also be for the lower Redemption Amount.

Any gain incurred on redemption of RES as a result of the Net Portfolio Proceeds being less than \$500 million, will be balanced by an equal and opposite movement in value on the swap with IAL such that the loss on the Portfolio will have no overall financial impact on the Issuer.

4 Pro forma effect of Exchange

The pro forma effect of Exchange represents the Issuer's pro forma statement of financial position after completion of the Offer and later Exchange of all RES on issue for Preference Shares.

Issuer's pro forma statement of financial position as at 30 June 2004

\$ million	Pro forma adjustments ¹			
	1 Issuer	2 Offer	3 Exchange ²	4 Pro forma ¹
Intra-group loan receivable ³	–	500	–	500
Capitalised borrowing costs ⁴	–	12	(12) ⁷	–
Total assets	–	512	(12)	500
Interest-bearing liabilities – RES	–	500	(500)	–
Intra-group loan payable	–	12	500 ⁵	512
Total liabilities	–	512	–	512
Net assets	–	–	(12)	(12)
Total equity⁶	–	–	(12)⁷	(12)

Notes:

- The pro forma adjustments and the pro forma statement of financial position are unaudited. The pro forma statement of financial position is prepared in Australian dollars and it is assumed that no foreign exchange fluctuations occur.
- For the purposes of the pro forma statement of financial position the Redemption Amount is \$100 per RES which assumes there has been no loss on the Portfolio.
- The gross proceeds from the Offer will be swapped for New Zealand dollars with IAL and the New Zealand dollars gross proceeds will be lent via an intra-group loan receivable to IAG (NZ) Holdings.
- Capitalised transaction costs which will be amortised over five years.
- Replacement funding of \$500 million sourced either externally or internally.
- The issued share capital was \$1.00 which has been rounded down to zero.
- Write-off of capitalised transaction costs through the statement of financial performance in the period that RES are Exchanged, and assuming no amortisation of capital transaction costs. The Issuer has intra-group arrangements in place to ensure that it can repay this amount should it be called upon.

5.2.1.1 Sensitivity to amount raised

The pro forma financial information presented in this Section 5.2 assumes that \$500 million is raised through the Offer.

The impact on the pro forma financial information of raising an additional \$50 million through oversubscriptions is as follows:

- firstly, for the issue of RES the intra-group loan receivable and the interest-bearing liability will increase by \$50 million and there would be an immaterial increase in the transaction costs; and
- secondly, for the potential subsequent Exchange into Preference Shares, the pro forma adjustments for the issue of Preference Shares above would increase proportionately with any additional RES issued.

If less than \$500 million is raised through the Offer, for example \$450 million, the impact on the pro forma financial information will be of an equivalent magnitude, but opposite in direction to the analysis above.

5.2.2 Pro forma statement of financial performance

The pro forma financial information assumes the Issuer will:

- earn income from managing the ongoing treasury requirements of the New Zealand operations;
- make annual Interest Payments, which for the purpose of the pro forma financial information are assumed to be the annualised first Interest Payment based on an Interest Rate of 5.50% per annum (Minimum Bank Bill Rate) and the mid-point of the RES Initial Margin 1.15% per annum. This equates to an annual Interest Payment of approximately \$23.3 million; and
- amortise expenses from the capitalised transaction costs of approximately \$2.4 million per annum for five years.

Based on these pro forma adjustments as at 30 June 2004, the Issuer is expected to generate a small profit on its activities.

5.3 Portfolio

The Portfolio will comprise high quality, short-dated fixed interest securities and will be invested and managed according to the PMA. The Portfolio has an Australian Bond Fund Rating of 'AAAF' by S&P. The Net Portfolio Income earned on the Portfolio is intended to fund Interest Payments. If there is a Redemption, Conversion or Exchange, the Net Portfolio Proceeds are intended to fund amounts which are payable upon Redemption, Conversion or Exchange (whether in payment of cash or in payment to IAG of the Ordinary Share Issue Price or the Preference Share Issue Price).

The Portfolio must only comprise Eligible Assets which, according to the Investment Mandate described in Section 9.3.6 are:

- Eligible Securities – see Section 9.3.6.1;
- Cash – see Section 9.3.6.1; and
- the Interest Rate Floor – see Section 9.4.

In some limited situations, which are described in Sections 9.3.9 and 9.4, IAG and IAL are obliged to pay funds to the Portfolio.

5.3.1 Australian Bond Fund Rating

The Portfolio has an Australian Bond Fund Rating of 'AAAF' by S&P. An Australian Bond Fund Rating is a current assessment of the overall credit quality of a fund's portfolio. The main risk elements evaluated in the rating process for bond funds are credit risk, liquidity risk, interest rate or market value risk and fund management capability. Credit quality is assessed according to the quality, type, and diversity of the assets that make up the fund. The rating assessment also takes into account the investment restrictions incorporated in the relevant rules governing the fund, the internal credit and investment guidelines of the manager and subsequent undertakings made to S&P during the rating process.

A fund rated 'AAAF' has extremely strong protection against losses from credit default. 'AAAF' is the highest Australian Bond Fund Rating assigned by S&P.

In addition, to minimise the effect of interest rate risk on the value of the Portfolio Securities, the Investment Mandate restricts the term to maturity for a Portfolio Security to 120 days. Section 9.3.6 summarises the Investment Mandate.

The Australian Bond Fund Rating is no indicator or guarantee of return on the Portfolio.

A bond fund rating is not a recommendation to make, hold or seek redemption of an investment in a fund in as much as it does not comment as to market price or suitability for a particular investor. The rating is based on current information furnished to S&P by the Portfolio Manager or obtained by S&P from other sources it considers reliable.

S&P does not perform an audit in connection with any rating and may on occasion rely on unaudited financial information. The rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Ratings are subject to revision or withdrawal at any time.

As at the date of this Prospectus, the Group had not approached any other rating agency for a rating of the Portfolio.

5.3.2 Portfolio Management Agreement

The PMA contains the terms and conditions on which:

- the Issuer, IAG Portfolio and the Trustee appoint the Portfolio Manager to manage and invest the Portfolio;
- the Issuer, IAG Portfolio and the Trustee appoint the Custodian to make payments from Net Portfolio Income on an Interest Payment Date and to transfer some or all of the Portfolio to the Trustee on a Realisation Date;
- payments in respect of RES are to be settled; and
- IAG will pay amounts to the Portfolio in certain circumstances.

Section 9.3 sets out a summary of the PMA.

5.3.3 Net Portfolio Income

In each Interest Period, the Portfolio Manager must use reasonable efforts to realise Net Portfolio Income at least equal to the aggregate Interest Payments due on the relevant Interest Payment Date. Interest Payments due to be paid are calculated according to the formula in clause 3.1 of the RES Terms. Net Portfolio Income will change due to a variety of factors, including:

- changes in market interest rates;
- the composition of the Portfolio; and
- default if any by an issuer of a Portfolio Asset.

On each Interest Payment Date, the Net Portfolio Income must be paid to RES Holders up to the amount of the aggregate Interest Payment. If there is any excess Net Portfolio Income earned by the Portfolio after payment of an Interest Payment, unless there is a reinvestment requirement a result of a Portfolio Deficit – see Section 9.3.7, the excess is payable to IAG Portfolio, which in turn will use that excess to meet obligations to other Group entities.

As a result of these obligations, IAG may be required to make certain payments into the Portfolio. IAL may also be required to make payments into the Portfolio as provider of the Interest Rate Floor. However, IAG Portfolio and other members of the Group may be entitled to any surplus in the Portfolio from excess Net Portfolio Income after payment of aggregate Interest Payments, or from excess Net Portfolio Proceeds after payment of aggregate Redemption Amounts.

If during an Interest Period, the Portfolio does not generate sufficient Net Portfolio Income to cover the aggregate Interest Payment due on the relevant Interest Payment Date, the Interest Payment will be reduced accordingly.

Sections 5.3.3.1 to 5.3.3.3 describe the factors that could potentially affect Net Portfolio Income generated by the Portfolio during an Interest Period.

5.3.3.1 *There may not be sufficient Net Portfolio Income due to changes in market interest rates*

The Investment Mandate is intended to enable the Portfolio to earn Net Portfolio Income equivalent to the Bank Bill Rate. However, there is a risk that the market interest rate earned by the Portfolio Assets could fall to a point where there is insufficient Net Portfolio Income to fund the aggregate Interest Payment.

Interest Payments are calculated using the Interest Rate formula:

$$\text{Interest Rate} = (\text{Bank Bill Rate} + \text{RES Margin}) \times (1 - \text{Tax Rate})$$

As a result, there is a possibility that the Interest Rate will exceed the market interest rate earned by the Portfolio Assets. Based on the RES Initial Margin and the Tax Rate, this occurs when the Bank Bill Rate falls below the 'floor' rate of 2.80% per annum. The 'floor' rate will change if the RES Margin or Tax Rate change.

To mitigate this risk, an Interest Rate Floor has been put in place between IAL and IAG Portfolio, such that if the Bank Bill Rate falls below this point during an Interest Period and there is insufficient Net Portfolio Income earned, IAL will pay into the Portfolio an amount sufficient to ensure that Net Portfolio Income is at least equal to the aggregate Interest Payment for that Interest Period.

5.3.3.2 *The Portfolio may not earn around the Bank Bill Rate of return due to its composition*

The Portfolio will be invested based on the Investment Mandate which defines the Eligible Assets that the Portfolio may hold and limits the amount of Eligible Assets that the Portfolio may hold. It is possible that, as a result of these criteria and changes in market conditions, the Portfolio may not achieve its expected return. The Portfolio Manager is required to use reasonable efforts to manage the Portfolio to achieve a return at least equal to the aggregate Interest Payment for the Interest Period.

5.3.3.3 *The Portfolio may be exposed to losses or defaults*

If during an Interest Period, a Portfolio Asset has been sold for a loss, or an issuer of a Portfolio Asset defaults on its obligations, this may mean that due to the reduced value of the Portfolio Assets the Portfolio may not earn sufficient Net Portfolio Income to meet the Interest Payment due on the relevant Interest Payment Date.

If the loss or default means that the value of the Portfolio Assets is reduced, this could also affect the ability of the Portfolio to generate sufficient Net Portfolio Income in later Interest Periods.

To mitigate this risk, the Portfolio will be invested based on the Investment Mandate. As a result, the Portfolio has been assigned an Australian Bond Fund Rating of 'AAAf' by S&P which means that the Portfolio has extremely strong protection against losses from credit default.

5.3.4 Net Portfolio Proceeds

The Investment Mandate is intended to enable the Portfolio to realise Net Portfolio Proceeds at least equal to the aggregate Issue Price of RES on issue upon any Redemption, Conversion or Exchange.

If, on a Realisation Date, the Net Portfolio Proceeds are less than the aggregate Issue Price of RES being Redeemed, Converted or Exchanged as a result of losses or defaults on the Portfolio Assets, the Redemption Amount will only be paid to the extent of the Net Portfolio Proceeds per RES (that is less than \$100).

The effect of this calculation is:

- on Conversion – RES Holders will only receive Ordinary Shares for each RES Converted equal to the Net Portfolio Proceeds per RES (subject to the RES Conversion Discount);
- on Exchange – the Preference Share Issue Price will be equal to the Net Portfolio Proceeds per RES; and
- on Redemption – RES Holders will only receive an amount of cash equal to the Net Portfolio Proceeds per RES.

To mitigate the risk of losses or defaults on Portfolio Assets the Portfolio will be invested based on the Investment Mandate.

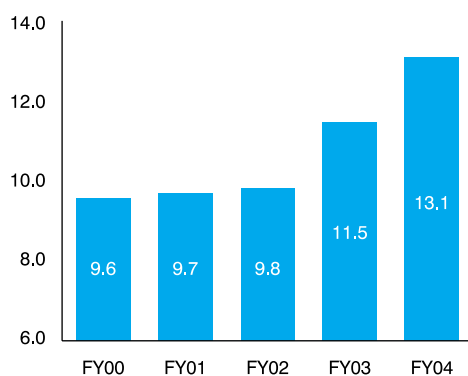
5.3.5 Portfolio Manager

IAG AM has extensive experience in managing investment funds, having managed funds for the Group for over 10 years. Investment funds being managed on behalf of the Group, totalled \$9.3 billion as at 30 June 2004. In addition, IAG AM manages external funds, totalling \$3.8 billion as at 30 June 2004, on behalf of a number of wholesale segregated client mandates, life funds and managed investment schemes.

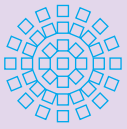
IAG AM has managed a wholesale cash management trust since April 1997. That trust has been rated 'AAA_m' by S&P since May 2002, and as at 30 June 2004 had assets totalling \$1.3 billion.

The asset classes managed by IAG AM are cash, fixed interest securities, indexed linked bonds, equities and property trusts. The graph below illustrates the value of IAG AM funds under management over the past five years ended 30 June 2004.

IAG AM funds under management¹ (\$ billion)



Note: 1 The funds under management in the chart above include any funds that are outsourced by IAG AM to other fund managers.



About IAG

Section 6

IAG is the leading general insurance group in Australia and New Zealand. IAG offers personal and commercial insurance products under some of the most trusted brands in its markets – NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia; and State and NZI in New Zealand. IAG insures property valued at more than \$800 billion and employs over 11,500 people.

A snapshot of IAG as at 30 June 2004

- Leading general insurance group in Australia and New Zealand
- Annual Gross Written Premium of \$6.4 billion
- Insures more than 4.7 million cars, 2.4 million homes, 220,000 businesses and 85,000 farms in Australia, and provides workers' compensation services to around 213,000 employers
- More than 11,500 employees
- No. 1 position in six major general insurance markets in Australia: motor, home, compulsory third party (CTP), workers' compensation, consumer credit and extended warranty
- Network of about 330 branches and customer service centres throughout metropolitan, regional and rural Australia, and 41 sales centres and branches in New Zealand
- Very strong Insurer Financial Strength Rating of 'AA' for its key wholly-owned insurance companies from S&P – the highest rating for any Australian-based financial institution

6.1 Insurance Australia Group Limited

IAG listed on ASX in August 2000, under its former name of NRMA Insurance Group Limited. The Group's name and ASX code (IAG, formerly NRM) were changed in January 2002 to better reflect its size, diversity, geographical distribution and aspirations.

At 19 November 2004, IAG had a market capitalisation of \$9.1 billion for its Ordinary Shares, ranking it among the largest 25 Australian listed companies, and the total Ordinary Shareholder return since listing four years ago (including the final dividend paid in October 2004) has been over 100%.

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

In January 2003, the Group acquired the Australian and New Zealand general insurance operations of Aviva plc; CGU and NZI. This acquisition significantly enhanced the Group's position in terms of GWP and Risks in Force, as well as diversification by product line, geographic spread and distribution channel. The acquisition helped the Group achieve its long-term target GWP mix of 80% Short-tail and 20% Long-tail. CGU and NZI are now integrated into the Group following the completion of the 18 month programme.

The Group is focused on its key business of general insurance, having sold its health insurance underwriting and retirement services businesses during the year ended 30 June 2004.

The Group's business is managed based on the following specialised segments of Australian personal insurance, Australian commercial insurance, and international operations, as outlined below.

Australian personal insurance

Financial performance for the year ended 30 June 2004

Gross Written Premium	\$3,900 million
Net Earned Premium	\$3,602 million
Combined Operating Ratio	87.9%
Insurance Margin	16.5%

The Group's Australian personal insurance operation develops, underwrites and distributes personal insurance products, and manages claims and assessing services. It is the largest general insurance underwriting and claims and assessing operation in Australia. Personal insurance products offered include motor vehicle, CTP, home and niche insurance products, such as caravan, pleasure craft, travel insurance and veteran and classic car insurance.

Products are distributed primarily under the Group's direct brands. NRMA Insurance is the primary brand used in New South Wales, Australian Capital Territory, Queensland and Tasmania. SGIO is the Group's primary brand in Western Australia, and SGIC in South Australia. In Victoria, products are underwritten by a joint venture entity, Insurance Manufacturers of Australia Pty Limited with RACV and distributed by a related party of RACV. In addition, insurance products are sold nationally under the Swann Insurance brand. Personal insurance products distributed nationally by CGU are generally sold via intermediaries (insurance brokers and agents) and business partners (financial institutions and alliances).

Australian commercial insurance

Financial performance for the year ended 30 June 2004

Gross Written Premium	\$1,613 million
Net Earned Premium	\$1,355 million
Combined Operating Ratio	95.0%
Insurance Margin	9.6%

The Group's Australian commercial insurance operation develops, underwrites and distributes insurance products for businesses. Commercial insurance products offered include commercial property, commercial motor and fleet motor, construction and engineering, directors' and officers', farm, crop and livestock, home warranty, marine, professional indemnity, public and products liability and workers' compensation.

These products are distributed primarily under the CGU Insurance brand through a network of more than 1,000 intermediaries. Commercial insurance packages, largely targeted at sole operators and smaller businesses, are also sold directly under the retail brands NRMA Insurance, SGIO and SGIC.

International operations

Financial performance for the year ended 30 June 2004

Gross Written Premium	\$914 million
Net Earned Premium	\$906 million
Combined Operating Ratio	94.8%
Insurance Margin	7.5%

The Group's international operations consist primarily of its operations in New Zealand, as well as the Group's Asian interests and captive reinsurer (IAG Re).

IAG New Zealand Limited is the leading insurance provider in New Zealand in the direct channel and a leading insurer in the intermediated channel, and holds approximately 37% of the total general insurance market in New Zealand as recorded by the Insurance Council of New Zealand, as at 30 June 2004. Insurance products are provided directly to customers under the State brand, and through intermediaries (insurance brokers and agents) under the NZI brand. IAG New Zealand Limited also distributes insurance through financial institutions such as banks. Personal and commercial

products include motor vehicle, home and contents, commercial property and motor, commercial liability, construction and engineering, niche insurance, such as pleasure craft, veteran and classic car, caravan and travel insurance, income protection, marine, personal liability, rural and horticultural.

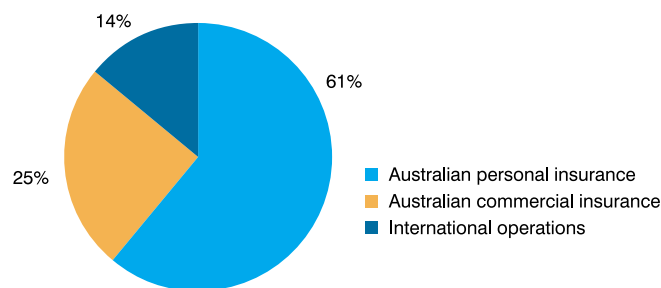
The results of the Group's captive reinsurer (IAG Re), through which the Group purchases most of its reinsurance protection, are also reflected in the Group's international operations.

In addition, IAG has interests in two businesses in Asia – 100% ownership of Beijing Continental Automobile Association Limited, a roadside assistance operation and insurance agent based in Beijing, China and a 20% shareholding in Safety Insurance Limited in Thailand.

The following charts summarise the Group's GWP by business structure and product line and growth and product line diversification over the eight years ending 30 June 2004:

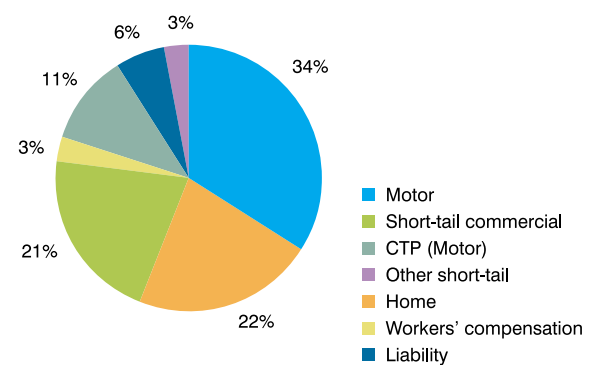
Gross Written Premium by business (% of GWP)

For the year ended 30 June 2004



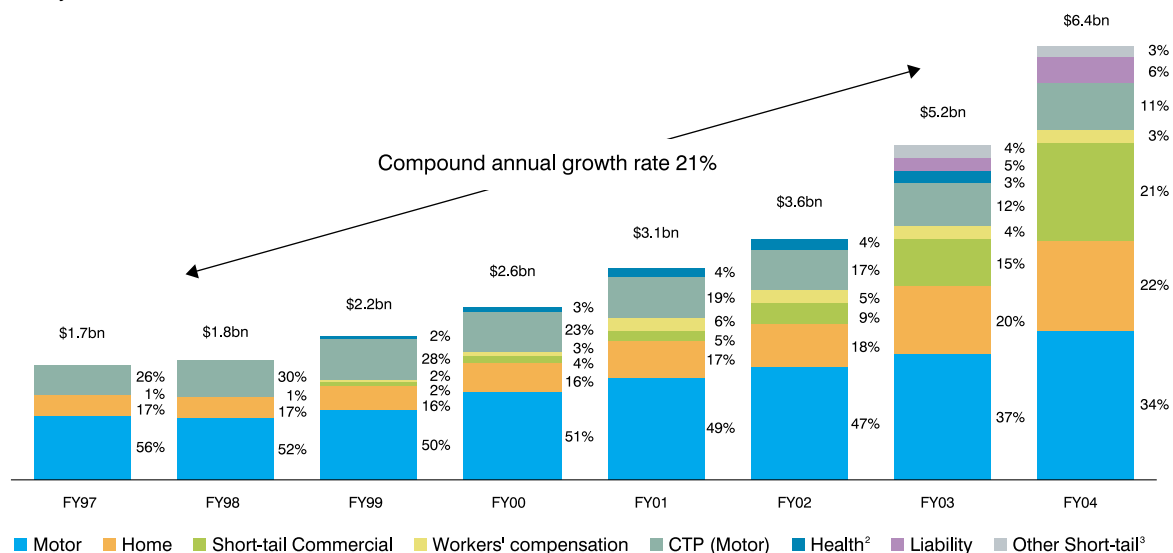
Gross Written Premium by product line (% of GWP)

For the year ended 30 June 2004



Annual Gross Written Premium¹ growth and product line diversification (\$ billion)

For the year ended 30 June



Notes:

- Includes GWP of all businesses except inwards reinsurance, which has been in run-off since 2001.
- The health insurance business was sold in July 2003.
- Other Short-tail primarily consists of other accident, extended warranty and consumer credit businesses.
- In relation to the financial information for the year ended 30 June 2001, IAG commenced operation on 22 July 2000 when it became the parent entity of IAL and its controlled entities upon demutualisation of IAL. Financial information used above, however, represents the full year of operation, including the three weeks prior to demutualisation.

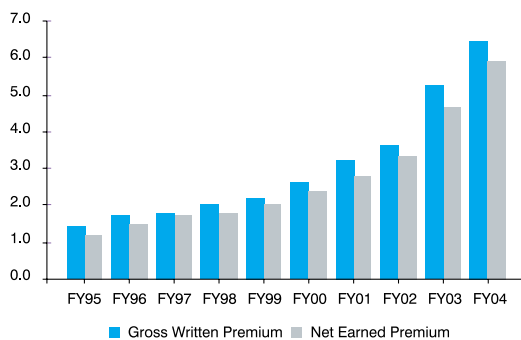
6.2 Financial profile and performance

For the year ended 30 June 2004, the Group recorded a net profit attributable to all shareholders of IAG of \$665 million after tax (2003: \$153 million) and GWP of \$6,427 million (2003: \$5,150 million).

The following graphs provide a historical summary of the growth in the Group's GWP and Net Earned Premium and net profit/(loss) attributable to all shareholders of IAG over the last 10 years to the full year ended 30 June 2004:

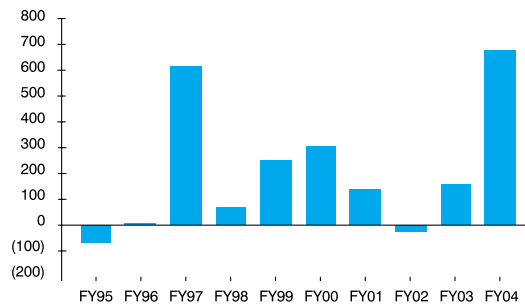
Gross Written Premium versus Net Earned Premium (\$ billion)

For the year ended 30 June



Net profit/(loss) attributable to all shareholders of IAG (\$ million)

For the year ended 30 June



Notes:

- 1 The financial information for years 1995 to 2000 relates to the consolidated operations of IAL (formerly NRMA Insurance Limited) prior to it becoming a wholly-owned subsidiary of IAG (then known as NRMA Insurance Group Limited).
- 2 In relation to the financial information for the year ended 30 June 2001, IAG commenced operation on 22 July 2000 when it became the parent entity of IAL and its controlled entities upon demutualisation of IAL. Financial information used above, however, represents the full year of operation, including the three weeks prior to demutualisation.
- 3 The financial information in these graphs is from the audited Group financial statements for the full years ended 30 June.

As shown in the graph above, the reported net profit/(loss) attributable to all shareholders of IAG over the past 10 years has been volatile. While there is inherent volatility in general insurance operations, the biggest source of volatility for the Group over this period has generally been from equity investment market performance. The Group is required to mark to market the majority of its substantial investment portfolio, with any changes in market values of these investments reported as part of the financial performance for the period. The Group's exposure to equity investment markets has also been significantly reduced by a change in the investment mix of its portfolio towards fixed interest investments.

As at 30 June 2004, the sensitivity of the Group's net profit attributable to all shareholders of IAG to movements in the market value of its combined equity portfolios was as follows:

- a 1% rise in Australian equity markets would generate an annual gain of around \$17.6 million before tax; and
- a 1% rise in the International equity markets would generate an annual gain of around \$5.2 million before tax.

The Group has delivered GWP growth in excess of 357% over the ten years ended 30 June 2004. This growth has been approximately 32% organic and 68% from acquisition. Each of the three years from 1 July 2001 to 30 June 2004 contributed double-digit growth in Net Earned Premium, achieving a compound annual growth rate of 28% per year. This increased scale and diversity by geography and product, combined with the extent of the Group's Reinsurance arrangements, assist in reducing the exposure of the Group to the inherent volatility of its general insurance operations.

The Group's financial statements since listing and related reports are available on the IAG website at www.iag.com.au.

The following table shows the Group's summarised audited statement of financial performance for the years ended 30 June 2004 and 30 June 2003:

Group summarised statement of financial performance

\$ million	Year ended 30 June 2004	Year ended 30 June 2003
Gross Written Premium	6,427	5,150
Net premium revenue	5,863	4,636
Net Claims Expense	(3,815)	(3,363)
Underwriting Expense	(1,500)	(1,074)
Investment income on Technical Reserves	244	372
Insurance Profit	792	571
Investment income/(loss) on Shareholders' Funds	434	(120)
Other operating and investment income	148	33
Borrowing costs	(57)	(46)
Amortisation of goodwill and intangibles	(118)	(81)
Other operating expenses	(47)	(60)
Profit before income tax	1,152	297
Income tax expense	(346)	(80)
Profit after income tax	806	217
Outside equity interests	(141)	(64)
Net profit attributable to all shareholders of IAG	665	153
Dividends paid to RPS1 and RPS2	(29)	(21)
Net profit attributable to Ordinary Shareholders	636	132
Insurance ratios		
Loss Ratio	65.1%	72.5%
Expense Ratio	25.6%	23.2%
Combined Operating Ratio	90.7%	95.7%
Insurance Margin	13.5%	12.3%

The net profit attributable to all shareholders of IAG was \$665 million (2003: \$153 million).

The key components contributing to the year ended 30 June 2004 were:

- the 2004 result incorporated the full year effect of the acquisition of CGU and NZI whilst the financial performance for the year ended 30 June 2003 only had six months impact of CGU and NZI. CGU and NZI were acquired on 2 January 2003;
- Gross Written Premium increased by 24.8% to \$6,427 million. This is mainly due to the full year effect from CGU and NZI. Excluding the impact of CGU and NZI, the underlying organic growth of GWP for the year ended 30 June 2004 was 2.5%;
- the Expense Ratio increased from 23.2% in 2003 to 25.6%. The full year effect of CGU and NZI has been the major driver of this increase as CGU and NZI bring a higher Expense Ratio, in the form of commission expense, due to the intermediary distribution of their products;
- the quality of the Insurance Profit was driven by:
 - strong performance of all major business segments which includes benefits derived from continuous business improvement;
 - completion of the 18 months CGU and NZI integration programme;
 - generally favourable weather conditions despite \$265 million storm claims for the year ended 30 June 2004; and

- after two years of negative return on equity portfolios, the recovery of equity markets delivered a positive contribution to the Group's financial performance for the year ended 30 June 2004. There was a significant increase in the investment income on Shareholders' Funds to \$434 million compared with a loss of \$120 million for the year ended 30 June 2003.

All dividends paid on Ordinary Shares and RPS1 and RPS2 since quotation have been fully franked. At 30 June 2004, the Group had a franking balance in excess of \$450 million (providing the capacity to pay fully franked dividends of over \$1,050 million).

6.3 Capital management and capital ratios

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

- an estimated risk of ruin of no more than 1 in 750 years;
- a 'AA' S&P rating for its key wholly-owned insurance operating entities; and
- economic capital, currently set at a benchmark of 1.60 times (x) the Group's risk-weighted minimum capital requirement (MCR) set by applying APRA prudential guidelines to all of the Group's operations. This benchmark will move to 1.55x MCR on issue of RES.

These parameters are supported by:

- conservative claims reserving (minimum Probability of Sufficiency of 90%);
- an extensive Reinsurance programme (maximum loss per event currently at less than 2% of Combined Operating Ratio); and
- a strategic asset allocation programme to actively control investment volatility risks.

As at 30 June 2004, the Group's MCR multiple was 1.75x, which was above the Group's then benchmark MCR multiple of 1.60x.

The issue of RES enhances IAG's capital structure by providing certainty now of access to qualifying Tier 1 Capital if needed at any time – particularly in market conditions that are less favourable or less certain than the current market conditions. Such circumstances could include a severe fall in equity markets (like that experienced in October 1987), or major catastrophes that are beyond the limits of the Group's reinsurance arrangements (there have been no major catastrophes beyond these limits in Australia or New Zealand to date).

RES will provide the Group with the flexibility and certainty to access qualifying Tier 1 Capital at any time. Upon issue of RES, the Group will reduce its current benchmark multiple of APRA's minimum capital requirement from 1.60x to 1.55x. This will enable the Group to release some existing capital for use in IAG's operations or for return to Ordinary Shareholders at an opportune time.

There will be no material impact on the Group's regulatory capital as a result of issue of RES unless Preference Shares or Ordinary Shares are issued. However, upon issue of RES, the Group will reduce its current benchmark MCR from 1.60x to 1.55x.

6.3.1 Tier 1 Capital

IAG is authorised under the Insurance Act 1973 (Cwlth) to be a non-operating holding company (NOHC). This is because IAG owns a number of entities that are licensed by APRA.

APRA has the power to impose prudential requirements on entities it oversees. APRA has issued a number of key prudential standards that apply to general insurers. This includes a standard regarding capital adequacy requirements (which, among other things, encompasses requirements regarding the mix and quality of eligible regulatory capital).

In terms of this capital adequacy standard, APRA requires locally incorporated, locally authorised general insurer entities to maintain a capital base (of eligible capital) in excess of their MCR under the standard. Foreign incorporated insurers, authorised to operate in Australia as branches, have slightly different requirements than those applicable to locally incorporated insurers.

APRA divides a general insurer's capital base into Tier 1 Capital and Tier 2 Capital, and requires (among other things) that Tier 1 Capital (net of certain deductions) constitutes at least 50% of its regulatory capital base. To date, APRA has not

issued capital adequacy requirements for authorised NOHCs, other than those NOHCs that contain an ADI. However the Group understands that APRA is continuing to develop its policy in this area.

RES will not qualify as regulatory capital. However, IAG has the ability to exercise its Exchange Right to issue Preference Shares (which are expected to qualify as Tier 1 Capital according to their terms) or, in certain circumstances IAG may elect to Convert and issue Ordinary Shares, which are Tier 1 Capital.

IAG's entitlement to treat the Preference Shares as Tier 1 Capital may also be affected by the mix of capital instruments which comprise its Tier 1 Capital. This is because under the current APRA guidance notes, preference shares and other innovative capital instruments are included in Tier 1 Capital only to the extent that they do not exceed 25% of all other Tier 1 Capital. Any amount ineligible for inclusion as Tier 1 Capital as a result of this limit will be eligible for inclusion as Upper Tier 2 Capital. The composition of the Group's pro forma capital adequacy position as at 30 June 2004 is detailed in Section 6.4.2.

IAG has received confirmation from APRA that the Preference Shares, if issued today, would qualify as Tier 1 Capital according to their terms. However, if APRA subsequently determines that the Preference Shares are not Tier 1 Capital prior to issue, IAG may decide that a Regulatory Event has occurred. This would enable IAG to Redeem or Convert RES.

Subject to APRA not changing the guidance notes for, or treatment of, qualifying Tier 1 Capital, neither the Issuer nor IAG will decide that a Regulatory Event has occurred solely as a result of the effect that the Preference Shares would have on IAG's mix of capital instruments.

6.4 Pro forma financial information

The pro forma financial information in this Section 6.4 presents the expected effect of the Offer on the Group as at 30 June 2004 assuming:

- firstly, the Offer was completed as at 30 June 2004 and \$500 million was raised through the issue of RES and via intra-group arrangements is invested in the Portfolio; and
- secondly, IAG exercised its Exchange Right as at 30 June 2004 and \$500 million of RES were redeemed by the Issuer and \$500 million of Preference Shares were issued by IAG.

Section 6.4.1 provides the Group's summarised pro forma statement of financial position, Section 6.4.2 provides the Group's pro forma capital adequacy position as at 30 June 2004 and Section 6.4.3 provides a discussion of the expected effect on the Group's statement of financial performance.

The pro forma financial information is unaudited and has been prepared according to Australian GAAP. Therefore, it does not reflect changes that may result from the implementation of A-IFRS on 1 January 2005. The Group has undertaken an assessment of the expected impact of A-IFRS as outlined in Section 6.6.3 and based on this assessment, the key implications of adoption of A-IFRS are not expected to have a material impact on the retained earnings of the Group.

6.4.1 Pro forma statement of financial position

The following table sets out the Group's pro forma statement of financial position based on the Group's audited statement of financial position as at 30 June 2004 – adjusted as if the issue of RES was completed on 30 June 2004 and subsequently Exchange took place for all RES on issue as at that date.

1 Group

The Group's summarised statement of financial position is taken from the financial statements for the year ended 30 June 2004, which have been audited.

2 Pro forma adjustments – Offer

The pro forma adjustments reflect that when RES are issued they will be classified as an interest-bearing liability in the Issuer's statement of financial position and will be set off against the asset of the Portfolio owned by IAG Portfolio. As a result, there are no balances recognised in the Group's statement of financial position for the issue of RES. The transaction costs relating to the Offer of \$12 million are expected to be capitalised in the Issuer's statement of financial position and amortised over five years. However, this capitalised amount is not material to the Group's statement of financial position and as a result no adjustments have been made to the Group's pro forma statement of financial position.

3 Pro forma adjustments – Exchange

The pro forma adjustments reflect IAG exercising its Exchange Right in full as at 30 June 2004. This would result in all RES on issue being redeemed and Exchanged into Preference Shares. IAG may exercise this Exchange Right at any time subject to certain conditions – see Section 2.5. The pro forma adjustments assume that the Portfolio has not made any gains or losses on any Portfolio Assets at the time of Exchange and as a result the Net Portfolio Proceeds on Exchange are \$500 million and IAG will receive \$500 million, which will be held as an investment by the Group.

The transactions for Exchange, assuming the Net Portfolio Proceeds are \$500 million, will be:

- the Issuer will redeem all RES on issue for \$100 each (\$500 million); and
- IAG Portfolio will liquidate the Portfolio and pay the proceeds to IAG upon direction by the Issuer to pay the Preference Share Issue Price of \$100 per Preference Share (\$500 million).

If Exchange were to occur before the Issuer had fully amortised the transaction costs, then the unamortised amount capitalised on the Issuer's statement of financial position would be written off in the period Exchange occurred. However, this capitalised amount is not material to the Group's statement of financial position and as a result no adjustments have been made to the Group's pro forma statement of financial position.

If the Portfolio has experienced a loss at the time of Exchange, then the same transactions would take place except RES will be redeemed for the Redemption Amount which would be less than \$100 and the Preference Share Issue Price would also be for the lower Redemption Amount.

4 Pro forma effect of Exchange

The pro forma effect of Exchange represents the Group's pro forma statement of financial position after completion of the Offer and subsequent Exchange of all RES on issue for Preference Shares.

Group's pro forma statement of financial position as at 30 June 2004

\$ million	Pro forma adjustments ¹			
	1 Group	2 Offer ²	3 Exchange ³	4 Pro forma ¹
Investments	10,183	–	500	10,683
Other assets	4,679	–	–	4,679
Goodwill and other Intangibles	1,473	–	–	1,473
Total assets	16,335	–	500	16,835
Claims outstanding and Unearned Premium	9,799	–	–	9,799
Interest-bearing liabilities	793	–	–	793
Other liabilities	1,519	–	–	1,519
Total liabilities	12,111	–	–	12,111
Net assets	4,224	–	500	4,724
Equity attributable to all Ordinary Shareholders	2,999	–	–	2,999
RPS1 and RPS2	539	–	–	539
Preference Shares	–	–	500	500
Outside equity interests	686	–	–	686
Total equity	4,224	–	500	4,724

Notes:

1 The pro forma adjustments and the pro forma statement of financial position are unaudited.

2 RES are not recognised in the Group's pro forma statement of financial position as there is a legal right of set-off and it is the Group's intention to realise the Portfolio and settle RES liability simultaneously.

3 For the purpose of the pro forma financial position, the Redemption Amount is \$100 per RES (and the Preference Shares are issued for \$100 each) which assumes that there has been no loss on the Portfolio.

6.4.2 Pro forma capital adequacy position

The following table sets out the Group's pro forma capital adequacy position based on the Group's audited statement of financial position as at 30 June 2004 – adjusted as if the issue of RES was completed on 30 June 2004 and subsequently Exchange took place for all RES on issue as at that date.

In the event that IAG exercises its Exchange Right and Preference Shares are issued, it is assumed that Preference Shares would qualify as Tier 1 Capital according to their terms. The amount ineligible for inclusion as Tier 1 Capital, as a result of the composition of the Group's pro forma mix of capital instruments as at 30 June 2004, has been included in Tier 2 Capital. The proceeds are assumed to be invested in investment assets which have minimal investment charges based on current APRA prudential standards and therefore no material impact on the MCR. On this basis, the issue of Preference Shares would increase the Group's MCR multiple by approximately 0.3 times. This assumes no material change in the Group's capital adequacy position at the time of Exchange.

Before Exchange, RES will not be eligible to be treated as regulatory capital and as a result will not have an effect on the Group's capital adequacy position.

Group's pro forma capital adequacy position as at 30 June 2004

\$ million	Pro forma adjustments ¹			
	1 Group	2 Offer ²	3 Exchange ³	4 Pro forma ¹
Tier 1 Capital	2,250	–	305 ⁴	2,555
Tier 2 Capital	644	–	195 ⁴	839
Regulatory capital base	2,894	–	500	3,394
Minimum capital requirement (MCR)	1,654	–	–	1,654 ³
MCR multiple⁵	1.75x	–	0.30x⁶	2.05x

Notes:

1 The pro forma adjustments and the pro forma capital adequacy position are unaudited.

2 RES are not recognised in the Group capital adequacy position as they are not eligible to be treated as regulatory capital until such time as Preference Shares are issued.

3 Assuming that the \$500 million in investment assets have minimal investment charge and no material impact on the Group's MCR.

4 These amounts reflect the composition of the Group's pro forma capital adequacy position as at 30 June 2004 – see Section 6.3.1.

5 The MCR multiple is the Group's regulatory capital base divided by its MCR.

6 Assuming there has been no change in the Group's capital adequacy position at the time of Exchange.

6.4.2.1 Sensitivity to amount raised

The pro forma financial information presented in this Section 6.4 assumes that \$500 million is raised through the Offer.

The impact on the pro forma financial information of raising an additional \$50 million through oversubscriptions is as follows:

- firstly, for the issue of RES the difference would be an immaterial increase in the transaction costs; and
- secondly, for the potential subsequent Exchange for Preference Shares, the pro forma adjustments for the issue of Preference Shares above would increase proportionately with any additional RES issued.

If less than \$500 million is raised through the Offer, for example \$450 million, the impact on the pro forma financial information will be of an equivalent magnitude, but opposite in direction to the analysis above.

6.4.3 Pro forma statement of financial performance

The issue of RES is expected to have a net positive, though immaterial impact, on the Group's financial performance. The reason it is not expected to have a material impact on the profit before income tax of the Group is because the increase in investment income generated from the Portfolio will be largely offset by the increase in interest expense from Interest Payments and the amortisation of the capitalised transaction costs. The impact of the Group's financial performance if the Preference Shares are issued is similar except payments to Preference Shareholders would be recorded as dividends rather than interest expenses paid to RES Holders. In addition, any unamortised transaction costs would be written-off in the period Exchange occurs.

Transaction costs of \$12 million relating to the Offer will be capitalised in the Issuer's statement of financial position and amortised over five years. The amortisation expense to be recognised is expected to be \$2.4 million per annum.

The combined effect of the above pro forma adjustments based on the net profit attributable to Ordinary Shareholders for the year ended 30 June 2004, following the issue of RES (or Preference Shares on Exchange), is not expected to have a material impact on earnings per Ordinary Share or return on equity.

6.5 Credit ratings

S&P has granted Insurer Financial Strength Ratings and Long-Term Counterparty Credit Ratings to key wholly-owned operating insurance entities in the Group and Issue Credit Ratings to the key securities that have been issued by the Group, as detailed in the following table:

Entity / security	Issue Credit Ratings	Insurer Financial Strength Ratings	Long-term Counterparty Credit Ratings
IAG Finance (NZ) RES	'A-'	–	–
IAG RPS1	'A-'	–	–
IAG RPS2	'A-'	–	–
Insurance Australia Limited	–	'AA'	'AA'/Stable Outlook
IAG New Zealand Limited	–	'AA'	'AA'/Stable Outlook
CGU Insurance Limited	–	'AA'	'AA'/Stable Outlook
Swann Insurance (Aust) Pty Limited	–	'AA'	'AA'/Stable Outlook

Issues rated 'BBB-' or higher by S&P are considered to be investment grade. **RES have been assigned an Issue Credit Rating of 'A-' by S&P and are therefore investment grade.** If issued, Preference Shares are expected to have the same credit rating by S&P as RPS1 and RPS2.

The Portfolio has an Australian Bond Fund Rating of 'AAAf' from S&P – see Section 5.3.1.

Rating definitions used by S&P are as follows:

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

According to S&P:

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

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

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

Ratings are subject to revision or withdrawal at any time.

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

6.6 Impact of International Financial Reporting Standards

This Section 6.6 details the latest assessment of the impact of A-IFRS on the Group based on the current interpretations of the published A-IFRS. The Group is making good progress in proceeding to full compliance with A-IFRS for the half year ending 31 December 2005 and the year ending 30 June 2006.

6.6.1 Overview of the impact of A-IFRS on the Group

For reporting periods beginning on or after 1 January 2005, the Group must comply with A-IFRS as issued by the AASB. The Group's financial statements will be prepared according to A-IFRS for the first time for the half year ending 31 December 2005 and the year ending 30 June 2006.

The financial information included in this Prospectus has been prepared in accordance with Australian GAAP. The differences between Australian GAAP and A-IFRS identified to date as potentially having a material effect on the Group's financial performance and financial position are summarised in Section 6.6.3. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and A-IFRS as there is still work to be completed by the Group.

The potential impacts on the Group's financial performance and financial position of the transition to A-IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of A-IFRS and the date of preparing this Prospectus. The impact on future years will depend on the particular circumstances prevailing in those years.

It is important to understand that while A-IFRS will change the Group's reported financial performance and financial position, this does not represent a change in the performance or strength of the underlying business.

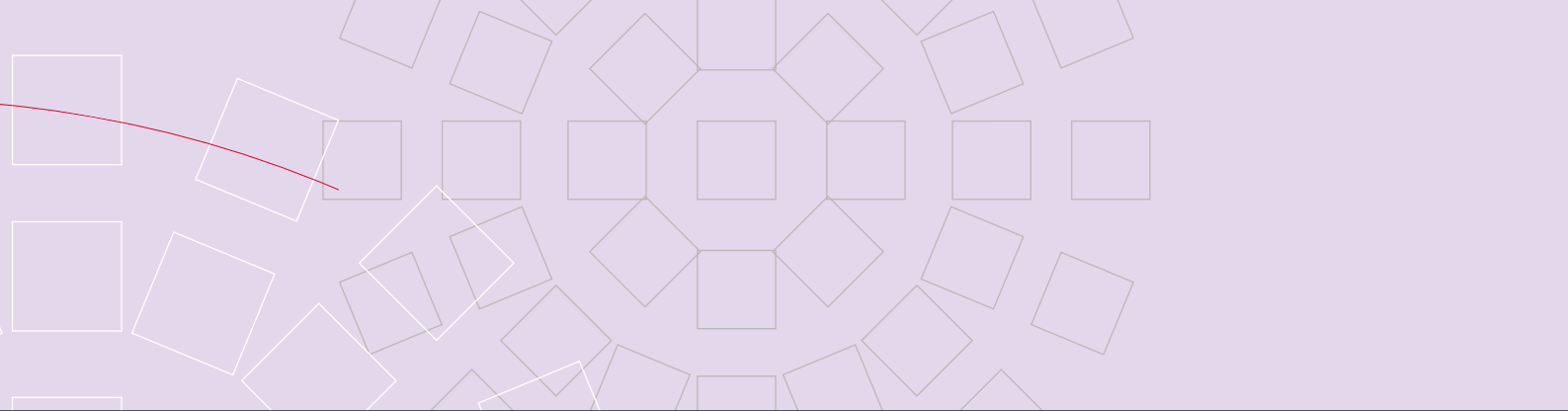
6.6.2 Management of the Group's IFRS transition

The Group has established a project team to manage the transition to A-IFRS, including training of staff and system and implementation of internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports quarterly to the Audit Committee. The project team has prepared a detailed timetable for managing the transition to A-IFRS and is currently on schedule. To date, the project team has analysed most of the A-IFRS and has identified a number of accounting policy changes that will be required. In some cases, choices of accounting policies are available, including elective exemptions under AASB 1: First-time Adoption of Australian Equivalents to IFRS. Some of these choices are still being analysed to determine the most appropriate accounting policy for the Group.

6.6.3 Implications of conversion to A-IFRS

The key implications of the conversion to A-IFRS on the Group are as follows:

<p>Insurance contracts</p> <p>The large majority, if not all, of the insurance products are expected to meet the new accounting definition of an 'insurance contract'.</p> <p>Changes to accounting for insurance products are not expected to be significant.</p>	<p>In respect of the Group's core insurance business, the changes to financial reporting on conversion to A-IFRS are not expected to be significant.</p> <p>One of the key changes is that the standard provides a definition of an 'insurance contract'. General insurance products and reinsurance products that meet the definition will continue with current accounting treatments subject to a revised liability adequacy test. Those general insurance products and reinsurance products that fall outside the definition will be treated as investment contracts or service contracts and be accounted for as financial instruments or revenue contracts respectively.</p> <p>An analysis of the Group's general insurance products and reinsurance products on offer, or utilised, is substantially complete with the expectation that most, if not all, will meet the definition of an insurance contract.</p> <p>This would mean that the Group's accounting for Unearned Premium, deferred acquisition costs, outstanding claims, premium revenue, claims expense and reinsurance recoveries would continue without significant change, subject to a revised liability adequacy test.</p>
<p>RPS1 and RPS2</p> <p>Reclassified as debt.</p> <p>Distributions treated as interest, not dividends.</p>	<p>The Group's reset preference shares will be reclassified as debt. APRA has stated it will continue the current regulatory capital treatment for existing instruments that are adversely affected by the accounting standard change until further notice. Distributions on those instruments will be treated as interest rather than dividends. If APRA's approach changes, it has indicated it may 'grandfather' the treatment of affected issued securities.</p>
<p>Financial assets</p> <p>More choices around accounting policies for investment assets.</p> <p>Initial accounting policy selection will mean no immediate change.</p>	<p>Under current accounting standards, the Group is required to measure at net market value (fair value less disposal costs) all investments integral to general insurance activities with movements in the net market value recorded in the statement of financial performance. Under A-IFRS, the Group will be required to measure at fair value only those assets held to back insurance liabilities and only where a fair value measurement option is available under the relevant accounting standards. Those financial assets that are not held to back insurance liabilities will move to a system of purpose led accounting. The new standards require classification of the investments based on the purpose for which they are held. The different classifications have different accounting treatments, being fair value through the statement of financial performance, fair value through equity, and amortised cost. There is also an option to measure any financial asset at fair value through the statement of financial performance regardless of the purpose for which it is held. The Group has elected to apply the fair value through statement of financial performance option under its current investment strategy for Shareholders' Funds and so all investments held will be measured on the same basis.</p>



	<p>The Group reserves the right to deem further asset acquisitions as held for another purpose and thus be valued on one of the other available bases.</p> <p>All derivative contracts, including the Exchange Right (and other embedded derivatives), regardless of the purpose for which they are used, will be measured at fair value. For vast majority of derivative contracts, the movements in fair value will be recorded in the statement of financial performance. The rest of derivative contracts which will be classified as designated hedge, the movements in fair value will be recorded through equity.</p>
<p>Goodwill</p> <p>No amortisation moving forward resulting in lower expenses, subject to impairment charges.</p>	<p>The Group will not restate the accounting for business combinations transacted prior to 1 July 2004, as permitted under first time adoption. Goodwill will not be amortised but will be tested for impairment at least annually. Using A-IFRS impairment methodology, the balance of goodwill shown in the IAG 2004 Annual Report of \$1,455 million is supportable.</p> <p>The Group had a goodwill amortisation expense for the year to 30 June 2004 of \$91 million. The elimination of the requirement to amortise goodwill under A-IFRS will increase reported profits, subject to any impairment charge that may be required from time to time.</p>
<p>Non-goodwill intangibles</p> <p>All current non-goodwill intangible assets qualify for recognition.</p>	<p>Existing non-goodwill intangible assets on the Group's statement of financial position at 30 June 2004 meet the recognition and measurement requirements of A-IFRS and so the accounting treatment, including amortisation, will remain unchanged. They will be subject to impairment testing.</p> <p>In certain circumstances under A-IFRS, development phase expenditure will be capitalised and so recognised as an internally generated intangible asset. Software development is the largest component of development expenditure for the Group. The Group is not currently carrying any capitalised software development costs in the statement of financial position but may have to review this position.</p>
<p>Superannuation surplus</p> <p>Positive impact to retained earnings at 1 July 2004.</p> <p>New asset/liability recognised.</p>	<p>Under A-IFRS, the relevant net position of defined benefit superannuation plans will be recognised in the statement of financial position, with movements recognised in the statement of financial performance. While information regarding the financial position of the IAG & NRMA Superannuation Plan (Plan) sponsored by the Group is provided in the notes to financial statements in the IAG 2004 Annual Report, the net position of the Plan is not recognised in the Group's results.</p> <p>The relevant surplus in the Plan as at 30 June 2004 under A-IFRS will pass through retained earnings as at 1 July 2004. The surplus calculated under A-IFRS will be different to that calculated in accordance with current accounting standards because of different measurement requirements, with the principal difference being the discount rate applied. Only a small minority of employees of the Group participate in the Plan on a defined benefit basis.</p>

Share-based payments

Overall expense likely to be reduced.

Under A-IFRS, the fair value at grant date of share-based remuneration is required to be recognised as an expense over the period from grant date until the equity instruments vest fully to the employee.

The Group has, during the last two years, simplified its approach to share-based remuneration. The cost to the Group of acquiring shares to fund future obligations for share-based remuneration is expensed in full, generally over the period during which the employees provide related services.

Under A-IFRS, it is likely that the equity remuneration trust used to manage the share-based arrangements will be consolidated by the Group. The impact of this would be that the shares purchased by the equity remuneration trust would likely be accounted for as a reduction in equity. The requirement to determine the fair value of the share-based remuneration and recognise this expense over the period from grant date to vesting date will likely result in a reduction in the overall expense recognised for the Group in relation to share-based payments.

The Group will not retrospectively apply the A-IFRS expense treatment to the Performance Share Rights Plan because the rights were granted prior to 7 November 2002, as permitted with A-IFRS first time adoption.

Property

All property classified as owner-occupied.

Under current accounting treatments, all property, regardless of the purpose for which it is used, must be designated as an investment integral to general insurance activities and so is measured at fair value. This designation will not continue under A-IFRS and property will be classified according to the purpose for which it is held. All of the property within the Group will be classified as owner-occupied property under A-IFRS.

Under A-IFRS, the Group has the option to continue to measure the property at fair value, but with movements being recorded through equity, or to apply a cost approach under which the property would be depreciated over its useful life and also be subject to impairment testing.

Taxation

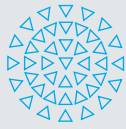
More deferred tax assets and liabilities may be recognised.

Income tax will be calculated based on the 'balance sheet approach' replacing the 'income statement approach' currently used. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base (being the amount attributed to an asset or liability for tax purposes). This may result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.

Retained earnings

The retained earnings balance as at 30 June 2004 will change.

In transitioning to A-IFRS, the basic principle (with certain exceptions) is that the Group must apply the new standards as if the Group had always applied them. There will therefore be some retrospective adjustments that will affect the retained earnings balance as at 1 July 2004.



Investment risks

Section 7

This Section describes the potential investment risks associated with an investment in the Offer. It is divided into investment risks associated with RES, Preference Shares, the Group and the general insurance industry.

Before applying for RES, you should consider whether the Offer is a suitable investment for you. There are investment risks associated with an investment in RES and Preference Shares, many of which are outside the control of the Issuer or the Group. These investment risks include those in this Section 7 and other matters referred to in this Prospectus.

7.1 Risks associated with RES

Set out below are specific investment risks associated with an investment in RES. You should also consider the other investment risks in this Section 7 as they relate to the Preference Shares into which RES may be Exchanged, Ordinary Shares into which RES may be Converted or an investment in any of those securities.

7.1.1 Investment losses from the Portfolio

The gross proceeds of the Offer will, through a series of intra-group arrangements, be invested by IAG Portfolio in the Portfolio. The Portfolio will hold Portfolio Securities according to the Investment Mandate.

An issuer of any Portfolio Security might default on interest payments or fail to repay principal when due. This may arise as a result of a lack of financial strength of the relevant issuer or due to changes in economic conditions or circumstances more generally. Alternatively, a loss may arise where a Portfolio Security is sold at a lower price than when it was acquired in the Portfolio. Within the Investment Mandate, there are requirements to realise securities at times when they may have lost value. A RES Holder will bear the risk of any loss associated with a default on a Portfolio Security or realised loss on sale of a Portfolio Security at a price below the price for which it was acquired in the Portfolio.

In these circumstances, a RES Holder will bear a loss, as such a default or realised loss would be expected to reduce the Net Portfolio Proceeds per RES to less than \$100. Among other things, this means that there will be a reduction in the interest that may be earned on the Portfolio and, as a result, a reduction in the Net Portfolio Income available to pay Interest Payments.

To reduce the risks of default on Portfolio Securities, the Portfolio will be managed according to the Investment Mandate which is consistent with qualifying for an Australian Bond Fund Rating of 'AAAf' from S&P. However, there can be no assurance that management of the Portfolio in this way will eliminate the risk of loss and as a result it is possible that:

- Net Portfolio Income per RES may be less than an Interest Payment on an Interest Payment Date; or
- Net Portfolio Proceeds per RES may be less than the Issue Price on Redemption, Conversion or Exchange.

Sections 5.3.3 and 5.3.4 set out further considerations in relation to the Portfolio.

7.1.2 Effect on capital investment

If there is a default or loss on a Portfolio Security, the Redemption Amount to be received by RES Holders on Redemption, Conversion or Exchange will be reduced to the extent of the loss or default. For these reasons, a loss or default on a Portfolio Security can result in a reduction in the capital value of your investment in RES if there is a Redemption, Conversion or Exchange.

7.1.3 Effect on market price of RES

Any loss or decline in the value of the Portfolio may have an impact on the market price of RES. In such circumstances, it is likely that RES would trade on ASX at a price which may be below the Issue Price.

7.1.4 Recourse of RES Holders to IAG

As RES are issued by the Issuer rather than IAG, unless IAG exercises its Exchange Right, the rights of RES Holders rank separately to the rights of holders of securities issued by IAG. IAG does not guarantee or provide other credit support for RES.

7.1.5 Rights and obligations held by different IAG Entities

RES are issued by one entity in the Group and the Portfolio is held by another entity in the Group. As such, there is a risk that claims against entities in the Group or laws affecting the Group may inhibit the Issuer's ability to meet its obligations according to RES.

In addition, IAG Portfolio and IAL have entered into an Interest Rate Floor designed to provide Net Portfolio Income sufficient to pay Interest Payments where the Bank Bill Rate has fallen below a certain 'floor' rate. IAL's ability to perform its contractual commitment is entirely dependent on its continued financial strength.

7.2 Risks associated with Preference Shares

Set out below are specific investment risks associated with holding Preference Shares following Exchange:

7.2.1 Accounting treatment

For reporting periods beginning on or after 1 January 2005, the Group is required to comply with A-IFRS. The Group's financial statements will be prepared according to A-IFRS for the first time for the half year ending 31 December 2005 and the year ending 30 June 2006.

The adoption of A-IFRS will have a number of implications, the key differences between existing Australian GAAP and A-IFRS affecting the Group are included in Section 6.6. An additional key impact in relation to the issue of RES is that IAG's Exchange Right will need to be accounted for at fair value.

IAG believes the Preference Shares will be accounted for as equity, both according to current Australian GAAP and on adoption of A-IFRS, unlike RPS1 and RPS2 which will be accounted for as debt according to A-IFRS.

7.2.2 Ranking of Preference Shares

On any winding-up of IAG, Preference Shareholders will rank behind policy holders and creditors of IAG (and equally with RPS Holders in all respects), but in priority to Ordinary Shareholders to the extent of the Preference Share Issue Price and any Dividends that are declared but are unpaid. In the event of a shortfall of funds on a winding-up, there is a risk that Preference Shareholders will not receive a full return of the Preference Share Issue Price or any Dividend declared and unpaid at that time.

7.3 Risks associated with both RES and Preference Shares

Set out below are specific investment risks associated with both RES and Preference Shares:

7.3.1 Financial performance and position of IAG

IAG can exercise its Exchange Right at any time, or the Issuer may Convert RES in certain circumstances. Therefore, if IAG's financial position declines, or if market participants anticipate that it may decline, an investment in RES could decline in value, even if IAG has not yet exercised its Exchange Right or Converted RES.

The value of your investment in RES will be influenced by the financial performance and position of IAG, regardless of when, if ever, IAG exercises its Exchange Right. IAG's financial performance and position will also affect the value of an investment in Preference Shares if issued.

Accordingly, when you evaluate whether to invest in the Offer you should carefully evaluate the investment risks associated with an investment in the Group and the general insurance industry as set out in Section 7.4.

7.3.2 Financial market conditions

The market price of RES and any Preference Shares will fluctuate due to various factors, including interest rates, general movements in the Australian and international equity markets, investor sentiment, worldwide or regional economic conditions and factors which may affect the general insurance industry.

7.3.3 Market price and liquidity of RES and Preference Shares

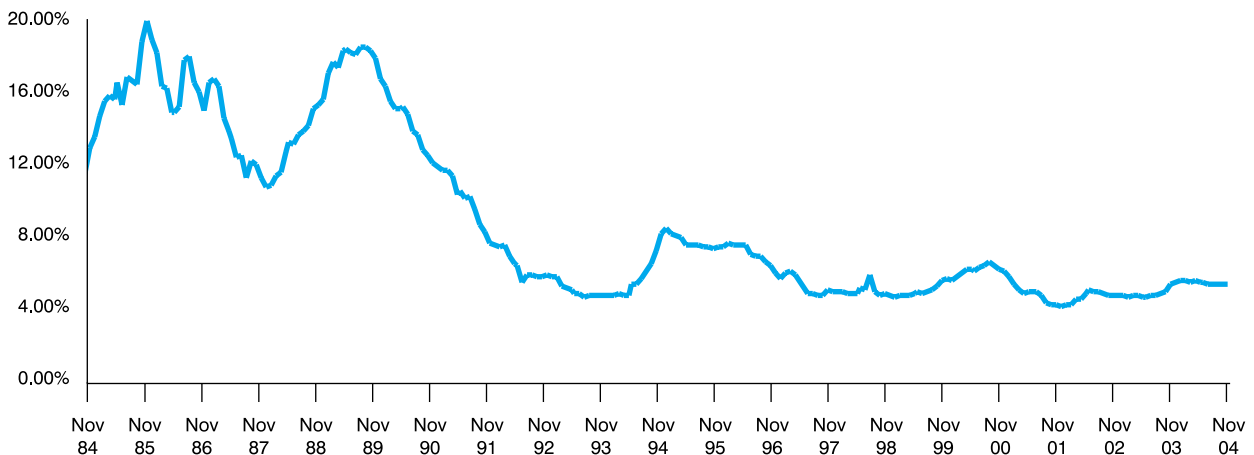
The Issuer and IAG are not able to predict the market price or liquidity of RES or Preference Shares if and when they are quoted on ASX. The market on ASX for RES or Preference Shares may be less liquid than the market on ASX for the Ordinary Shares.

It is possible that the RES or Preference Shares could trade on ASX at a price below the Issue Price or Preference Share Issue Price. Their market value also may be affected by the market price of Ordinary Shares. RES Holders or Preference Shareholders who wish to sell their RES or Preference Shares (as the case may be) may be unable to do so at all if insufficient liquidity exists in the market for RES or Preference Shares.

7.3.4 Interest Rate and Dividend Rate

The Interest Rate and the Dividend Rate are calculated by reference to the Bank Bill Rate each quarter, which is influenced by a number of factors and varies over time. These rates will fluctuate (both increasing and decreasing) with movements in the 90 day Bank Bill Rate. The range for the 90 day Bank Bill Rate over the last 20 years is depicted in the chart below:

90 day Bank Bill Rate



To reflect changes in market conditions, on 15 March 2010 and on later Reset Dates, the Issuer can change certain features of RES including the RES Margin. As the Interest Rate fluctuates, there is a risk that the Interest Rate will become less attractive when compared to the rates of return on comparable securities issued by other entities. Although RES Holders may request redemption of their RES on a Reset Date, there are no reset provisions or rights to request redemption of Preference Shares.

7.3.5 Ability to pay Interest Payments and Dividends

RES are debt instruments and Interest Payments will only be paid if the Interest Payment Tests are satisfied. For a summary of the Interest Payment Tests – see Section 2.2.7.

Preference Shares are not debt instruments, and the Dividends payable are not the same as interest payments. Dividends will only be paid if the Dividend Payment Tests are satisfied. For a summary of the Dividend Payment Tests – see Section 2.9.6.

The Dividend Payment Tests are more restrictive than the Interest Payment Tests. IAG is required to satisfy certain APRA requirements in order to make Dividend Payments. These requirements do not apply to Interest Payments.

Interest Payments and Dividends are non-cumulative, and therefore any Interest Payment or Dividend which is not declared may not be made up in subsequent periods. Like other general insurance groups, due to the Group's volatility of earnings there can be no guarantee that in certain years IAG will have sufficient profits to satisfy the Interest Payment Tests and Dividend Payment Tests.

See Section 7.4 for risks associated with the Group and the general insurance industry.

7.3.6 Early Redemption or Conversion

The Issuer may initiate Redemption or Conversion of some or all RES in the circumstances detailed in Section 2.6.11. IAG may initiate Redemption or Conversion of some or all Preference Shares in the circumstances as detailed in Section 2.10.3. Redemption or Conversion may occur if these circumstances happen prior to a Reset Date or Step-Up Date and before you wish to dispose of your investment. This may have negative consequences depending on your individual circumstances.

Where the Issuer or IAG initiates Redemption or Conversion, the value of your investment may differ, as a result of factors which include losses on the Portfolio Securities in relation to RES or because the number of Ordinary Shares to be issued on Conversion depends on the VWAP during the 20 Business Days before the date of Conversion. The value of Ordinary Shares according to the VWAP may differ to the market price for Ordinary Shares on the day the Ordinary Shares are issued to you.

The Issuer may Redeem RES for the Redemption Amount and IAG may Redeem Preference Shares for the Preference Share Issue Price. Depending on when you acquired either RES or Preference Shares, the cash amount you receive on Redemption of either RES or Preference Shares could be higher or lower than the original price paid.

7.3.7 Taxation treatment

A summary of the potential taxation consequences for RES Holders and Preference Shareholders is contained in the Taxation Letter in Section 8. This Taxation Letter is in general terms and does not provide specific advice in relation to the circumstances of any particular investor. Accordingly, you should seek independent advice in relation to your own individual taxation circumstances.

If there is a change to the taxation system that materially increases the costs to the Issuer or IAG of having the RES or Preference Shares on issue, the Issuer or IAG (as the case may be) may decide that a Tax Event has occurred. This would allow for early Redemption or Conversion. Therefore, the exact period for which RES Holders and Preference Shareholders will be entitled to the benefit of the rights attaching to RES or Preference Shares is unknown.

7.3.8 Credit ratings

RES have been rated 'A-' by S&P. As a result of changes in the Group's operating performance or capital structure, there is a risk that credit ratings of wholly-owned key operating insurance entities, RES or Preference Shares (if issued) could be downgraded in the future. This could affect the market price and liquidity of RES, Preference Shares and Ordinary Shares.

In particular, if the Portfolio Manager does not comply with S&P's criteria for 'AAAF' rated Australian Bond Funds or maintain the capability requirements prescribed by S&P for a portfolio manager with an Australian Bond Fund Rating of 'AAAF', the Portfolio could be downgraded by S&P.

Although key wholly-owned operating insurance entities in the Group have Insurer Financial Strength Ratings of 'AA' from S&P, RES are not issued or guaranteed by those entities or by IAG itself. Despite this, any downgrading of the credit ratings of one or more of those entities could affect the sentiment of market participants, thereby causing the market price of RES or Preference Shares to fall.

7.3.9 Regulatory classification of Preference Shares

APRA has provided confirmation that the Preference Shares would qualify as Tier 1 Capital according to their terms if issued today. However, if APRA subsequently determines that the Preference Shares do or will not be Tier 1 Capital, IAG may decide that a Regulatory Event has occurred. If this happens before any issue of Preference Shares, then it would allow the Issuer to Redeem or Convert RES on issue. If it occurred after the Preference Shares had been issued, then it would allow IAG to Convert the Preference Shares or, subject to APRA's prior approval, Redeem the Preference Shares. If appropriate, IAG may seek the approval of RES Holders at the time to change the Preference Share Terms so that they would qualify as Tier 1 Capital.

7.3.10 Future issues of securities

IAG or one of its controlled entities (including the Issuer) may issue other securities, including other notes or preference shares which rank equally with or behind RES or Preference Shares, without the approval of RES Holders or Preference Shareholders. In addition, the Issuer or IAG may also issue other securities that rank equally with, or behind, RES or Preference Shares for interest, dividends or repayment of capital in a winding-up of IAG. Such issues could impact the ability of IAG or other members of the Group to pay Interest Payments or Dividends or the sufficiency of funds on a winding-up. The issue of such securities could negatively affect the price that RES or Preference Shares could trade on ASX.

7.4 Risks associated with the Group and the general insurance industry

Set out below are investment risks associated with the Group and the general insurance industry. These are relevant to an investment in RES, Preference Shares and Ordinary Shares as the value of your investment will depend on the financial performance and position of the Group, regardless of when or if IAG exercises its right to Convert or Exchange RES.

7.4.1 Investment performance

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

- Shareholders' Funds; and
- Technical Reserves which represent assets to support outstanding claims and Unearned Premium liabilities.

In accordance with the Group's investment policy, the majority of Shareholders' Funds are invested in Australian and international equity securities. The Group's investment policy for Technical Reserves is to invest in fixed interest and cash (a proportion of the exposure is achieved by swapping the index return on Australian equities held with an indexed bond return). The level and volatility of investment income derived from equity securities are greater than the level of volatility experienced with fixed interest and cash investments. The Technical Reserves assets are subject to fluctuations in interest rates. However, the impact of interest rate movements on the market value of the Group's fixed interest portfolio is largely offset by the corresponding change in the discount rate applied to the Group's outstanding claims reserves. The duration of the Group's Technical Reserves is closely matched to the expected duration of the underlying claims liabilities.

7.4.2 Estimation of claims provisions

The Group maintains provisions for unpaid claims and related expenses, which reflect estimates of future claims, inflation trends and other factors. Although the Group seeks to maintain claims provisions at a minimum level of 90% Probability of Sufficiency, the establishment of appropriate provisions is an inherently uncertain process, especially for Long-tail classes of business. There can be no assurance that the Group's current claims provisions will be sufficient.

7.4.3 Market position

IAG's business is concentrated in Australia and New Zealand, which sourced 86% and 14% of the GWP for the financial year ended 30 June 2004. This means the Group's performance is largely dependent on the insurance sector performance in both Australia and New Zealand.

Personal lines comprised 67% of the Group's GWP for the financial year ended 30 June 2004. Currently, the structure of the personal lines business in both countries is such that the vast bulk of the business is written by five industry participants in each country. The focus of these players on generating a reasonable return on capital, their well known brands and the benefits of scale in operating costs and data management, together with APRA requirements designed to ensure prudential levels of capital, reduce the risk of irrational competition. However, should this occur, the Group's leading market shares would make it an obvious target for aggressive competitive action.

Commercial insurance is heavily influenced by the international insurance cycle. The degree of influence is strongest for large corporate business where international capital flows easily in and out of the local market, generally through large brokers. Reinsurance, which can be a significant element of commercial insurance pricing, is subject to the same cycle. The speed and extent of the cycle decrease with the size of the business being insured. The current stage of the cycle is one of reducing premiums and this will put pressure on margins in business, which accounted for 33% of the Group's GWP for the financial year ended 30 June 2004. The extent of this pressure should be mitigated in part by the Group's focus on small to medium enterprises, including a significant element of rural business.

7.4.4 Reinsurance

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

7.4.5 Overseas expansion

The Group has announced its intention to explore opportunities to develop its international operations by acquisition in appropriate circumstances. Expansion into international markets creates sovereign, currency and economic risks, and increases the Group's exposure to regulatory and tax risks. In addition, the Group does not have significant experience in the general insurance markets in places where it does not already operate.

7.4.6 Catastrophes

General insurers are subject to the risk of large-scale claims arising out of catastrophes, which may have a significant impact on their earnings and financial condition. Catastrophes may include cyclones, earthquakes, wind, hail, floods, fire, volcanic eruptions and explosions, which are inherently unpredictable with regard to incidence and severity. While the Group has historically managed its exposure to catastrophes through, among other things, the purchase of Reinsurance, there can be no assurance that Reinsurance coverage will continue to be available at acceptable rates and levels or that existing coverage will prove adequate.

7.4.7 Changes in government policy, regulation or legislation

The general insurance industry in Australia is subject to extensive legislation, regulation and supervision by federal and state regulatory organisations, including APRA. Insurance-specific regulation and supervision are primarily directed to the benefit of policyholders and not RES Holders or Preference Shareholders. Future legislation and regulatory change in countries in which the Group operates may affect the general insurance industry and may adversely affect the Group's financial performance and position.

7.4.8 Operations and operational matters

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

7.4.9 Economic and industry conditions

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

7.4.10 Litigation

The Group is from time to time involved in legal proceedings relating to policies underwritten by entities in the Group or arising from its operations generally. While there are no material legal proceedings that are current or threatened against the Group, there can be no assurance that the outcome of legal proceedings from time to time will not have a material effect on the Group's business, financial performance or position.

The summary of investment risks in this Section is not exhaustive and you should read this Prospectus in its entirety and consult your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest in the Offer.



Taxation Letter

Section 8

If you are considering applying for RES, it is important for you to understand the taxation consequences of investing in the Offer. You should read the Taxation Letter in this Section before deciding whether to invest and discuss the taxation consequences with your tax adviser, accountant or other professional adviser.

22 November 2004

The Directors
IAG Finance (New Zealand) Limited
New Zealand Branch
IAG House
151 Queen Street
Auckland
New Zealand

The Directors
Insurance Australia Group Limited
388 George Street
Sydney NSW 2000
Australia

Dear Directors

Taxation Letter – Reset Exchangeable Securities (RES)

We have been instructed by the Issuer and IAG to prepare this Taxation Letter for inclusion in this Prospectus dated 22 November 2004 in relation to the Offer.

8.1 Scope of advice

This Taxation Letter is based on the documents referred to in this Prospectus and provides a summary of the principal Australian income tax and GST consequences arising from the acquisition, holding and sale of:

- RES by a RES Holder;
- Preference Shares by a RES Holder whose RES are Exchanged into Preference Shares; and
- Ordinary Shares by a RES Holder whose RES are Converted into Ordinary Shares.

This Taxation Letter deals with the position of RES Holders who hold RES, Preference Shares or Ordinary Shares on capital account for tax purposes. This Taxation Letter does not deal with the position of RES Holders who hold RES, Preference Shares or Ordinary Shares for resale at a profit, or as trading stock as part of a securities trading business.

The information contained in this Taxation Letter is of a general nature only and does not constitute taxation advice to any particular investor. It does not attempt to address all of the taxation consequences that may be relevant to investors. Potential investors should seek independent taxation advice for their own particular circumstances.

All legislative references in this Taxation Letter are to provisions of the Income Tax Assessment Act 1936 (Cwlth) and to the provisions of the Income Tax Assessment Act 1997 (Cwlth) (each, the Act). The capitalised words and expressions in this letter have the same meaning as in this Prospectus unless indicated otherwise.

This Taxation Letter is based on the Australian income tax and GST laws applicable as at the date of this Taxation Letter.

8.2 Reset Exchangable Securities

RES will be both traditional securities as defined in section 26BB of the Act and assets for the purposes of the CGT provisions of the Act.

8.2.1 Interest Payments

Interest Payments will be assessable income in the tax year in which they are received or credited to the account of the RES Holder.

Interest Payments will be non-share dividends which may be franked. To the extent that an Interest Payment is franked, the amount of the franking credit attaching to the Interest Payment will also be included in the assessable income of the RES Holder. A RES Holder will generally be entitled to a tax offset (that is, a tax rebate) equal to the amount of the franking credit.

RES Holders who are individuals or complying superannuation funds (but not RES Holders who are companies) may be entitled to a refund of tax if the amount of the tax offset exceeds the RES Holder's net liability (excluding the amount of the tax offset) to income tax for that tax year.

RES Holders who are companies will be entitled to a credit in their franking account equal to the amount of the franking credit.

In the absence of being required to make related payments, for a RES Holder to qualify for the above franking benefits, the RES Holder must hold the RES 'at risk' for a minimum number of days during a defined period (called a primary qualification period).

The minimum number of days for ordinary shares is 45 days and, for preference shares, 90 days. Although the Act is not clear, we believe that the minimum number of days for RES is 90 days. That is, the RES Holder must hold the RES 'at risk' for 90 days during the primary qualification period beginning on the day after the day on which the RES Holder acquired the RES and ending on the 90th day after the day on which RES go ex-Interest Payment on ASX.

The benefits of franking may not be available if the RES Holder is under an obligation to make related payments in respect of the franked Interest Payment, or enters into arrangements to reduce the risk of loss or opportunity for gain on RES.

The Act also contains a number of anti-avoidance provisions which seek to deny the benefit of franking if the Commissioner of Taxation considers the arrangements to constitute 'streaming' of franking credits. In our view, these provisions will not apply.

8.2.2 Sale or Redemption for cash

If RES are sold or Redeemed for cash, an assessable gain may arise according to section 26BB if the cost of RES is less than the proceeds of sale or the Redemption Amount. If the proceeds of sale or the Redemption Amount is less than the cost of RES, that difference will generally be deductible according to section 70B of the Act. The cost base of RES will generally be the amount paid on issue which is the Issue Price or purchase of RES plus the costs of acquisition which are not otherwise deductible.

The amount of any capital gain arising from the sale of RES or Redemption for cash will be reduced by the amount included in the RES Holder's assessable income under the traditional securities provisions.

8.2.3 Conversion into Ordinary Shares

If RES are Converted, any gain or loss on Conversion will be ignored for the purposes of both the traditional securities and CGT provisions.

8.2.4 Exchange into Preference Shares

If RES are Exchanged then, although the matter is not free from doubt, an assessable gain may arise according to section 26BB of the Act if the market value of the Preference Shares issued on Exchange exceeds the cost of the RES. If the market value of the Preference Shares issued on Exchange is less than the cost of RES, that difference will generally be deductible according to section 70B of the Act. The cost base of RES will generally be the amount paid for the issue or purchase of RES plus the costs of acquisition which are not otherwise deductible.

The amount of any capital gain arising from the disposal of RES on Exchange will be reduced by the amount included in the RES Holder's assessable income under the traditional securities provisions.

8.3 Preference Shares

Preference Shares will not be traditional securities as defined in section 26BB of the Act, but will be assets for the purposes of the CGT provisions of the Act.

For RES Holders who are issued Preference Shares as a result of Exchange, the cost base for each Preference Share for CGT purposes will be the sum of:

- the cost base of RES at the time of Exchange; and
- the amount by which any capital gain arising upon Exchange was reduced by an amount included in assessable income under the traditional securities provisions.

For Preference Shareholders who acquire the Preference Shares on market, the cost base will generally be the amount paid for the purchase of the Preference Shares plus the costs of acquisition which are not otherwise deductible.

8.3.1 Dividends

Dividends will be assessable income in the tax year in which they are received or credited to the account of the Preference Shareholder.

To the extent that a Dividend is franked, the amount of the franking credit attaching to the Dividend will also be included in the assessable income of the Preference Shareholder. A Preference Shareholder will generally be entitled to a tax offset (that is, a tax rebate) equal to the amount of the franking credit.

Preference Shareholders who are individuals or complying superannuation funds (but not Preference Shareholders who are companies) may be entitled to a refund of tax if the amount of the tax offset exceeds the Preference Shareholder's net liability (excluding the amount of the tax offset) to income tax for that tax year.

Preference Shareholders who are companies will be entitled to a credit in their franking account equal to the amount of the franking credit.

In the absence of being required to make related payments, for a Preference Shareholder to qualify for the above franking benefits, the Preference Shareholder must hold the Preference Shares 'at risk' for a minimum number of days during a primary qualification period. The minimum number of days for preference shares is 90 days. That is, the Preference Shareholder must hold the Preference Shares 'at risk' for 90 days during the primary qualification period beginning on the day after the day on which the Preference Shareholder acquired the Preference Shares (including because of Exchange) and ending on the 90th day after the day on which the Preference Shares go ex-Dividend on ASX.

The benefits of franking may not be available if the Preference Shareholder is under an obligation to make related payments in respect of the franked Dividend, or enters into arrangements to reduce the risk of loss or opportunity for gain on Preference Shares.

8.3.2 Sale for cash

If Preference Shares are disposed of for cash, a capital gain may arise if the cost base of the Preference Shares is less than the consideration received in relation to the disposal. If the consideration is less than the cost base, that difference will generally give rise to a capital loss.

For Preference Shareholders who are individuals or trustees of trusts, the capital gain (net of any available capital losses) is reduced by one-half if the Preference Shares have been held for at least 12 months and are not disposed of under an agreement made within 12 months of acquisition. For complying superannuation funds, the capital gain is reduced by one-third if the same conditions are satisfied. The acquisition date for this purpose will be the date of issue of the Preference Shares if they are acquired upon an Exchange.

8.3.3 Redemption for cash

A Preference Share can only be Redeemed from the proceeds of a fresh issue of shares by IAG or out of profits of IAG. If the Redemption Amount is sourced out of a fresh issue of shares by IAG, the tax consequences will generally be the same as a sale. If the Redemption Amount is sourced out of profits, that Redemption Amount will be an assessable dividend.

The source from which a Redemption of Preference Shares will be made will be within the control of IAG.

8.3.4 Conversion into Ordinary Shares

If Preference Shares are Converted, any gain or loss on Conversion will be ignored for CGT purposes.

8.4 Ordinary Shares

Ordinary Shares will not be traditional securities as defined in section 26BB of the Act, but will be assets for the purposes of the CGT provisions of the Act.

For Ordinary Shareholders who acquire Ordinary Shares upon Conversion of RES or Preference Shares, the cost base for the RES or Preference Shares will be spread over the Ordinary Shares acquired upon Conversion.

8.4.1 Dividends

The treatment of dividends from Ordinary Shares will generally be the same as that discussed above for Dividends from Preference Shares, except that the minimum holding period for ordinary shares is 45 days with the primary qualification period beginning on the day after the day on which the Ordinary Shareholder acquired the Ordinary Shares (including because of Conversion) and ending on the 45th day after the day on which Ordinary Shares go ex-Dividend on ASX.

8.4.2 Sale for cash

If Ordinary Shares are sold for cash, a capital gain may arise if the cost base of Ordinary Shares is less than the consideration received in relation to the sale. If the consideration is less than the cost base, that difference will generally give rise to a capital loss.

For Ordinary Shareholders who are individuals or trustees of trusts, the capital gain (net of any available capital losses) is reduced by one-half if the Ordinary Shares have been held for at least 12 months and are not disposed of under an agreement made within 12 months of acquisition. For complying superannuation funds, the capital gain is reduced by one-third if the same conditions are satisfied. The acquisition date for this purpose will be the Realisation Date if Ordinary Shares are acquired upon Conversion of RES, or the Preference Share Exchange Date if Ordinary Shares are acquired upon Conversion of Preference Shares.

8.5 Pay-As-You-Go withholding tax

RES Holders and Preference Shareholders may, if they choose, notify the Issuer or IAG of their TFN, ABN or a relevant exemption number.

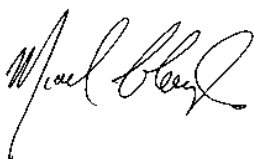
In the event that the Issuer or IAG is not so notified, tax will be automatically deducted from Interest Payments or Dividends at the current rate of 48.5% of the gross cash Interest Payment or Dividend.

The requirement to withhold tax will continue until such time as the relevant TFN, ABN or exemption number is given to the Issuer or IAG. RES Holders and Preference Shareholders will be entitled to claim an income tax credit or refund (as applicable) in respect of any tax that is withheld in this manner in their income tax returns.

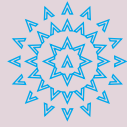
8.6 GST

RES Holders should not be liable for GST in respect of applying for RES or on Redemption, Conversion or Exchange.

Yours sincerely



Michael Clough
Partner



Summary of important documents

Section 9

This Section summarises the important documents relating to the rights and liabilities of RES. The RES Terms and the Preference Share Terms are not summarised in this Section.

9.1 Rights and liabilities of RES

The rights and liabilities of RES are contained in the Trust Deed which incorporates as schedule 1 the RES Terms and as schedule 2 the Preference Share Terms.

Rights and liabilities attaching to RES may also arise under the Corporations Act, Listing Rules and other laws. These are not covered in this summary, except where expressly indicated.

As RES may Convert into Ordinary Shares, a summary of the rights and obligations attaching to Ordinary Shares is provided in Section 10.9.

9.2 Summary of the Trust Deed

The parties to the Trust Deed are the Issuer, IAG, IAG Portfolio and the Trustee.

9.2.1 Summary

The Trust Deed contains the terms and conditions on which:

- the Issuer issues RES;
- IAG Portfolio provides a guarantee in respect of the Issuer's payment obligations under RES;
- the Trustee agrees to act as trustee for the benefit of RES Holders;
- each of the Issuer and IAG Portfolio provides security for their payment obligations in respect of RES; and
- amounts owing to RES Holders are settled by payment to RES Holders or to the Trustee.

9.2.2 Security arrangements

The Trustee is required to hold the benefit of the security provided under the Trust Deed for the secured creditors of the Issuer, the RES Holders, the Trustee and certain service providers in relation to RES and the Portfolio (Secured Creditors). The Trustee has no obligation to Secured Creditors who are not RES Holders other than to apply money it receives in respect of the Charge and Mortgage according to the Trust Deed.

The Issuer grants to the Trustee a fixed charge over its right, title and interest in the PMA and certain intra-group receivables (Charge). IAG Portfolio grants to the Trustee a mortgage over the Portfolio and a floating charge over its rights, property and undertaking (Mortgage). The Charge and the Mortgage are both granted as security for amounts owing in connection with RES under the Trust Deed to the Secured Creditors. Both the Charge and the Mortgage extend only to property which is acquired after the date of the Trust Deed and exclude certain real property acquired after that date.

Although IAG is a party to the Trust Deed, it does not provide any guarantee or other credit support under the arrangements established to issue RES.

9.2.3 Limited recourse of the Trustee

The liability of each of the Issuer and IAG Portfolio is limited to the property which has been charged or mortgaged (as the case may be), so that the Trustee may not seek to recover shortfalls owing to it by the Issuer or IAG Portfolio over and above the value of that property. The amount which is secured by the Charge and the Mortgage is limited in each case to \$600 million.

9.2.4 Rights and obligations of the Trustee

The rights and obligations of the Trustee are set out in the Trust Deed.

The Trust Deed also limits the responsibility and liability of the Trustee under the Transaction Documents to the amounts available to it as Trustee, except in circumstances where it has acted negligently or fraudulently, or where there has been a gross or wilful breach of its obligations under the Transaction Documents.

9.2.5 Removal and resignation of the Trustee

The Issuer may remove the Trustee by giving not less than 30 days notice in writing. Where the Trustee has failed to perform any obligations under the Transaction Documents, within 14 days from delivery of notice requiring remedy, the Issuer may immediately remove the Trustee by giving notice in writing.

The Trustee may retire as Trustee by giving the Issuer not less than 30 days notice in writing. The Trustee must immediately retire if an insolvency event has occurred in respect of it in its personal capacity.

However, the Trustee's appointment will not cease until an approved replacement trustee has been appointed by the Issuer.

Where after 60 days notice of removal or retirement, the Issuer has not appointed a replacement trustee, the Trustee may nominate a replacement.

9.2.6 Fees and indemnities

IAG must pay to the Trustee such fees as agreed between them.

The Issuer, IAG and IAG Portfolio each indemnifies the Trustee against liabilities, costs and expenses incurred in exercising its powers as Trustee, other than in relation to certain taxes on the Trustee's remuneration or in

circumstances where the Trustee has acted negligently or fraudulently or where there has been a gross or wilful breach of its obligations under the Transaction Documents.

9.2.7 Events of Default

An Event of Default occurs if:

- the Issuer or IAG Portfolio fails to pay any amount due and payable on RES or other amounts owing under the Transaction Documents within 20 Business Days of the due date of payment;
- any of a number of defined insolvency-related events occur in respect of the Issuer or IAG Portfolio, including certain enforcement action being taken in relation to the property which is charged under the Charge and the Mortgage;
- any Transaction Document ceases to be effective according to its terms; or
- any of the representations and warranties made by the Issuer or IAG Portfolio in a Transaction Document is incorrect or misleading when made or taken to be made.

9.2.8 Consequences of an Event of Default

If an Event of Default occurs, then the Charge and the Mortgage become enforceable. The Trustee may then take any enforcement action available to it as a mortgagee or chargee, including appointing a receiver, provided that any action it takes is consistent with the RES Terms. No payments may be accelerated where it would result in amounts falling due earlier than provided for under RES (for example, no enforcement action may be taken where Conversion would otherwise take place on the occurrence of a Trigger Event).

The RES Holders are not entitled to enforce the Charge or Mortgage or take separate action against the Issuer.

9.2.9 Application of moneys

The parties to the Trust Deed agree that any amounts received in respect of property which is the subject of the Charge or the Mortgage (including where recovered on enforcement) must be applied as follows:

- any amounts received in respect of income from the Portfolio must be applied in the following order of priority:
 - to pay amounts owing to the Trustee and certain service providers;
 - to pay any remuneration owing to a receiver appointed to the Issuer by the Trustee;
 - to pay amounts owing in respect of Interest Payments to RES Holders or the Trustee;

- other than on the date of any Conversion, Redemption or Exchange, to the extent that the Portfolio Principal Balance is less than the aggregate Issue Price of RES on issue (Portfolio Deficit) to IAG Portfolio for investment in the Portfolio until there is no longer a Portfolio Deficit;
 - on the date of any Redemption, Conversion or Exchange, to pay the Redemption Amount to RES Holders (or in the case of a Conversion or Exchange, to IAG in respect of the relevant Ordinary Share Issue Price or Preference Share Issue Price); and
 - any remaining amount is to be paid to the Issuer or IAG Portfolio or any other Secured Creditor with rights over that property;
- any amounts received in respect of proceeds from the Portfolio must be applied in the following order of priority:
 - to pay unpaid amounts owing to the Trustee and certain service providers;
 - to pay any unpaid remuneration owing to a receiver appointed to the Issuer by the Trustee;
 - to pay the Redemption Amounts to RES Holders (or in the case of a Conversion or Exchange, to IAG in respect of the relevant Ordinary Share Issue Price or Preference Share Issue Price);
 - to pay amounts owing in respect of Interest Payments to RES Holders or the Trustee; and
 - any remaining amount is to be paid to the Issuer or IAG Portfolio or any other Secured Creditor with rights over that property.

Receipt by the Trustee of the proceeds of realisation of the Portfolio satisfies any rights the RES Holder or the Trustee has against the Issuer or IAG Portfolio in respect of payment obligations owed to RES Holders.

9.2.10 Statutory obligations of the Issuer, IAG Portfolio and the Trustee

The Trust Deed describes the statutory obligations of the Issuer, IAG Portfolio and the Trustee according to chapter 2L of the Corporations Act in relation to offers of debentures.

9.2.11 Power to amend Trust Deed

The Issuer and the Trustee may jointly amend the Trust Deed at any time, by written agreement:

- if the Issuer and the Trustee believe the amendment is formal or technical, made to cure ambiguity or errors, expedient to enable RES to be listed or retain listing on a stock exchange and not considered by the Trustee to be materially prejudicial to RES Holders' interests as a whole, necessary to comply with the provision of any

statute or requirement of a statutory authority, or to evidence the succession of another person to the Issuer;

- if such amendment is authorised by a Special Resolution; and
- in any case, where such amendment is considered by the Trustee not to be materially prejudicial to the interests of RES Holders as a whole.

9.3 Summary of the PMA

9.3.1 Summary

The parties to the PMA are the Issuer, IAG, IAG Portfolio, the Portfolio Manager, the Trustee and the Custodian.

The PMA contains the terms and conditions on which:

- the Issuer, IAG Portfolio and the Trustee appoint IAG AM as Portfolio Manager to manage and invest the Portfolio;
- the Issuer, IAG Portfolio and the Trustee appoint the Custodian to make payments from Net Portfolio Income on an Interest Payment Date and to transfer some or all of the Portfolio to the Trustee on a Realisation Date;
- payments in respect of RES are to be settled; and
- IAG will pay amounts to the Portfolio in certain circumstances.

9.3.2 Obligations and powers of the Portfolio Manager

IAG AM's responsibilities as Portfolio Manager include (but are not limited to):

- investing the gross proceeds of the loan from IAL into the Portfolio and managing and investing the Portfolio according to the Investment Mandate;
- in each Interest Period, using reasonable efforts to realise Net Portfolio Income at least equal to the aggregate Interest Payment due to be paid at the end of that Interest Period;
- doing all things reasonably within its power to maintain an Australian Bond Fund Rating on the Portfolio of 'AAAF' by S&P and to maintain the capability requirements prescribed by S&P for a portfolio manager of a 'AAAF' portfolio; and
- acting on the instructions of the Trustee, if it has been notified of Enforcement of Security, or otherwise, the Trustee and IAG Portfolio.

Subject to certain limitations, the Portfolio Manager has power to do all things necessary for it to carry out its role as Portfolio Manager.

9.3.3 Obligations and powers of the Custodian

The Custodian's responsibilities as the Custodian include (but are not limited to):

- holding the Portfolio for the Issuer, IAG Portfolio and the Trustee;
- maintaining a bank account into and out of which payments in respect of RES and the Portfolio are made;
- on each Interest Payment Date (except for an Interest Payment Date which is also a Realisation Date), paying Net Portfolio Income to RES Holders;
- on each Realisation Date, transferring the Portfolio or a proportion of the Portfolio (calculated on the basis of the fair market value of the Portfolio Assets) if not all RES are being Redeemed, Converted or Exchanged on the relevant Realisation Date, to the Trustee; and
- acting on the instructions of the Trustee or (unless the Custodian has been notified of Enforcement of Security) the Portfolio Manager.

9.3.4 Fees and indemnities of the Portfolio Manager and the Custodian

The Portfolio Manager and the Custodian may each be paid a fee as agreed between either of them and the parties to the PMA. This fee is not payable out of the Portfolio.

Neither the Portfolio Manager nor the Custodian has a right of indemnity or reimbursement for any costs, expenses or liabilities from the Portfolio or any lien over the Portfolio for any amounts owing to either of them or otherwise.

Neither the Portfolio Manager nor the Custodian has any liability to any party in connection with the performance of its obligations under the PMA, other than in the case of fraud, wilful misconduct or negligence. The liability of the Portfolio Manager and the Custodian is limited to the maximum extent permitted under law.

9.3.5 Retirement, removal and replacement of the Portfolio Manager and the Custodian

The Trustee may, or, if no Event of Default is subsisting, the Issuer, IAG Portfolio and the Trustee acting jointly may, remove the Portfolio Manager or Custodian by giving 20 Business Days notice (or five Business Days notice if the Portfolio Manager or Custodian is in default under the PMA).

The Portfolio Manager or Custodian may retire by giving 20 Business Days notice in writing to the Issuer, IAG Portfolio and the Trustee.

If the Portfolio Manager or Custodian is removed or retires, then that removal or retirement is not effective until a replacement Portfolio Manager or Custodian (as the case may be) has been appointed.

A replacement Portfolio Manager or Custodian may be appointed by the Trustee or, if no Event of Default is subsisting, by the Issuer, IAG Portfolio and the Trustee acting jointly.

9.3.6 Investment Mandate

The Portfolio Manager must invest and manage the Portfolio according to the Investment Mandate.

The Investment Mandate states that the Portfolio may only consist of Eligible Assets and must, as a whole, comply with the Portfolio Parameters.

9.3.6.1 Eligible Assets

Eligible Assets are:

- Eligible Securities, which are:
 - debt obligations;
 - denominated in Australian dollars;
 - issued by a party rated 'A-1' by S&P or better or are themselves rated 'A-1' by S&P or better;
 - not guaranteed or issued by any IAG Entity;
 - of a maximum term to maturity from the date of inclusion in the Portfolio of 120 days;
 - not convertible into an instrument or asset which does not meet the above criteria; and
 - in either bearer or registered form, whether or not lodged in the Austraclear System;
- cash, including the credit balance of the Custodian Bank Account and overnight or 24 hour call deposits with ADIs with a short term credit rating of at least 'A-1' by S&P (Cash); and
- the Interest Rate Floor.

9.3.6.2 Portfolio Parameters

Except as permitted in Section 9.3.6.3, the Portfolio must at any time meet the following criteria:

- the aggregate purchase price of all Eligible Assets which are rated 'A-1' by S&P must not exceed 25% of the Portfolio Principal Balance;
- the aggregate purchase price of all Eligible Assets of an obligor that is a single state government issued or guaranteed entity must not exceed 50% of the Portfolio Principal Balance;
- the aggregate purchase price of all Eligible Assets of an obligor that is not a single state government issued or guaranteed entity which has a short term credit rating of 'A-1+' by S&P must not exceed 33% of the Portfolio Principal Balance;

- the aggregate purchase price of all Eligible Assets of an obligor that is not a single state government issued or guaranteed entity which has a short term credit rating of 'A-1' by S&P must not exceed 10% of the Portfolio Principal Balance; and
- the aggregate purchase price of all Eligible Assets at any time which meet the following criteria must in aggregate be no less than 50% of the Portfolio Principal Balance;
 - Cash;
 - securities issued or guaranteed by the Commonwealth of Australia;
 - securities issued by a central borrowing authority of a state or territory of the Commonwealth of Australia; or
 - securities issued, drawn, accepted or endorsed by ADIs rated 'A-1+' and 'A-1' by S&P (with the exception of ADIs rated 'A-1' by S&P (and on creditwatch) with negative implications).

9.3.6.3 Ceasing to be an Eligible Asset

If a Portfolio Asset ceases to be an Eligible Asset, the Portfolio Manager must sell or dispose of that Portfolio Asset within 30 days of it ceasing to be an Eligible Asset and reinvest the proceeds from that sale or disposal in one or more other Eligible Assets.

If the Portfolio Manager does not sell or dispose of a Portfolio Asset as required, that Portfolio Asset is deemed to:

- have been sold for nil consideration; and
- no longer be a Portfolio Asset for the purpose of calculating the Portfolio Principal Balance,

and the Portfolio Principal Balance will be reduced accordingly.

9.3.6.4 Credit ratings

For the purposes of the Investment Mandate, if at any time, any security or obligor is put on credit watch negative by S&P and the relevant security has a remaining term to maturity of more than 30 days from that time, then that security or obligor will be deemed to have the next lowest rating according to S&P's relevant rating scale.

9.3.7 Payments from, and transfers of, the Portfolio

On an Interest Payment Date (other than an Interest Payment Date which is a Realisation Date with respect to RES which are being Redeemed, Converted or Exchanged on that date), the Custodian must apply the Net Portfolio Income for that date according to the following order of payment:

- first, in payment of any costs of the Trustee, the Registry or the Custodian outstanding on that date;

- second, in payment of any Interest Payments due (either to the Registry, or if an Event of Default has occurred to, or as directed by, the Trustee on behalf of RES Holders);
- third, to the extent of any Portfolio Deficit, to IAG Portfolio for investment in the Portfolio until there is no longer a Portfolio Deficit; and
- fourth, any remaining amount to IAG Portfolio, or as IAG Portfolio directs it to be paid.

On a Realisation Date, if all RES are being Redeemed, Converted or Exchanged on that date, the Custodian must transfer the Portfolio to the Trustee. If not all RES are being Redeemed, Converted or Exchanged on that date, the Custodian must transfer the proportion of the Portfolio (calculated on the basis of the fair market value of the Portfolio Assets) which corresponds to the proportion of RES which are being Redeemed, Converted or Exchanged.

The Portfolio Manager (or if an Event of Default has occurred, the Trustee or a receiver appointed by it) will then realise the Portfolio Assets and the proceeds will be paid to the credit of an account with an ADI in the name of the Trustee and the Trustee must then apply the proceeds according to the Trust Deed.

9.3.8 Settlement of obligations on RES

On an Interest Payment Date (other than an Interest Payment Date which is a Realisation Date), if the Custodian applies the Net Portfolio Income according to the PMA, the parties to the PMA agree that the application satisfies:

- any right the Issuer has against an IAG Entity to receive an amount equal to the aggregate Interest Payment due on that date (as may have been agreed between them);
- any right the Trustee or a RES Holder has against the Issuer or IAG Portfolio in respect of the Interest Payment due on that date; and
- any right the Issuer or IAG Portfolio has against the Custodian in respect of the Net Portfolio Income.

On a Realisation Date, if the Trustee receives the proceeds of realisation of the Portfolio into the Realisation Account, the parties to the PMA agree that, to the extent of the receipt, this satisfies:

- any right the Issuer has against any IAG Entity to receive an amount equal to the aggregate Interest Payments or the Net Portfolio Proceeds due on that date; and
- any right the RES Holders or the Trustee has against the Issuer or IAG Portfolio in respect of the Interest Payment or the Redemption Amount due on RES being Redeemed, Converted or Exchanged on that date.

9.3.9 Payment into the Portfolio by IAG

IAG agrees that:

- if, because the Portfolio Manager breaches its obligations under the PMA, there is insufficient Net Portfolio Income to pay Interest Payments or insufficient Net Portfolio Proceeds to pay Redemption Amounts, then it will pay an amount into the Portfolio sufficient to ensure that RES Holders receive the full amount of the Interest Payment or Redemption Amount due on the relevant day; and
- if an Interest Payment is unable to be 100% franked and there is insufficient Net Portfolio Income to pay a grossed-up Interest Payment, without IAG paying an amount into the Portfolio, then it will pay an amount into the Portfolio to enable there to be sufficient Net Portfolio Income to pay the grossed-up Interest Payment.

9.4 Interest Rate Floor

According to the Interest Rate Floor, on each Interest Payment Date, if IAG Portfolio has insufficient Net Portfolio Income to pay the aggregate Interest Payment then due on RES (Shortfall), IAL will be required to pay IAG Portfolio the lesser of the Shortfall and:

- for the first Interest Payment Date only, an amount calculated by applying to the daily weighted average of the Portfolio Principal Balance the rate by which the Bank Bill Rate is less than the rate specified to apply to RES for the first Interest Period; and
- for each succeeding Interest Payment Date, an amount calculated by applying to the daily weighted average of the Portfolio Principal Balance the rate by which the Bank Bill Rate is less than the floor rate.

The 'floor' rate is calculated by reference to the RES Margin and the Tax Rate and so it will change while RES are on issue with any changes in the RES Margin or the Tax Rate. Based on the RES Initial Margin and the Tax Rate, this occurs when the Bank Bill Rate falls below the 'floor' rate of 2.80% per annum. The 'floor' rate will change if the RES Margin or Tax Rate change.

9.5 Summary of the Offer Management Agreement

The Issuer, IAG and the Lead Manager & Bookrunner entered into the Offer Management Agreement on 22 November 2004. According to the Offer Management Agreement, the Issuer and IAG have appointed the Lead Manager & Bookrunner as the exclusive lead manager and bookrunner for the Offer.

According to the Offer Management Agreement, the Lead Manager & Bookrunner agreed to conduct the Bookbuild in consultation with the Issuer and IAG for the purpose, among other things, of setting the RES Initial Margin and determining the allocations to institutional investors, Senior Co-Managers, Co-Managers and Participating Brokers.

The Offer Management Agreement contains various representations and warranties, and imposes various obligations on each of the Issuer and IAG, including representations, warranties and undertakings to ensure that this Prospectus complies with the Corporations Act and other applicable laws, and to conduct the Offer according to the agreed timetable, the Trust Deed, the Listing Rules, this Prospectus and other applicable laws and requirements of ASIC or ASX.

The Offer Management Agreement provides that neither the Issuer nor IAG may, without the Lead Manager & Bookrunner's consent, issue, agree to issue or announce any issues of RES or securities convertible or exchangeable into RES or grant any person a right to subscribe for or be issued any such notes or securities, for a period of 90 days after the Issue Date.

The Lead Manager & Bookrunner may terminate its obligations according to the Offer Management Agreement on the occurrence of a number of customary termination events, including market changes and material adverse changes affecting certain entities within the Group, ASIC stop orders, ASX refusal to admit the Issuer to the ASX official list, credit rating downgrade of IAL or the RES, a supplementary prospectus is required but fails to be lodged, any person withdraws their consent to be named in this Prospectus, the Issuer withdraws the Prospectus or Offer, trading of ordinary shares is halted or quotation of ordinary shares is suspended for a certain period of time. If this occurs, the Lead Manager & Bookrunner will no longer be the Lead Manager & Bookrunner and it will not be obliged to provide settlement support for the Bookbuild. In addition, the obligations of the Institutional Investors,

Senior Co-Managers, Co-Managers and Participating Brokers may, by the terms of the invitation to participate in the Bookbuild, terminate their obligations according to the Bookbuild.

The Issuer and IAG have agreed to indemnify the Lead Manager & Bookrunner and parties affiliated with it against claims, demands, damages, losses, costs, charges, expenses and liabilities in connection with the Offer, and certain other things related to that Offer other than where these are finally judicially determined to result from any fraud, recklessness, wilful misconduct, gross negligence or material breach of the Offer Management Agreement by the indemnified party.

9.5.1 Settlement support

The Lead Manager & Bookrunner has agreed to provide settlement support for part of the Offer. As part of that settlement support, the Lead Manager & Bookrunner has agreed to pay, or procure payment of, the aggregate amount of the Issue Price of RES allocated to institutional investors, Senior Co-Managers, Co-Managers and Participating Brokers through the Bookbuild.

9.5.2 Fees

According to the Offer Management Agreement, the Lead Manager & Bookrunner will receive a combined management, discretionary performance and institutional selling fee of up to 1.50% of the gross proceeds raised through the Offer. Senior Co-Managers, Co-Managers and Participating Brokers will receive a retail selling fee of up to 1.00% of the RES allocated to Senior Co-Managers, Co-Managers and Participating Brokers through the Bookbuild.

9.6 Stamping fee

A stamping fee of 1.00% will be payable by the Issuer to any broker who stamps the blue Application Form for the General Offer on behalf of their clients who successfully apply for RES through the General Offer.



Additional information

Section 10

You should be aware of a number of other matters that may not have been addressed in detail elsewhere in this Prospectus.

These include the availability of certain relevant documents, the consents of advisers whose statements have been included in this Prospectus and their interest in the Offer, the disclosure of Directors' and IAG Directors' interests and the concessions that regulators have granted to the Issuer and IAG in respect of the Offer.

10.1 Information, disclosure and availability

10.1.1 Availability of IAG information

IAG is a disclosing entity under the Corporations Act and is therefore subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules.

In particular, IAG has an obligation under the Listing Rules (subject to certain exceptions) to notify ASX immediately of any information of which it is, or becomes, aware concerning IAG which a reasonable person would expect to have a material effect on the price or value of RPS1, RPS2 or Ordinary Shares. That information is available on the public file at ASX.

IAG is also required to prepare and lodge with ASIC both yearly and half yearly financial statements accompanied by an IAG Director's statement and report, with an audit or review report.

Copies of these documents lodged with ASIC may be obtained from or inspected at an ASIC office and on the IAG website at www.iag.com.au.

10.1.2 Accessing information about RES or Preference Shares

The Issuer is required to provide RES Holders with a Holding Statement when RES are issued and a periodic statement for each reporting period.

The Issuer has undertaken to provide a copy of the following documents free of charge to any person who requests a copy during the Offer Period:

- the financial statements of IAG for the year ended 30 June 2004 (being the most recent annual financial report lodged with ASIC before the lodgement of this Prospectus);
- any other document or financial statement lodged by IAG with ASIC or ASX under the continuous disclosure reporting requirements in the period after the lodgement of the financial statements of IAG for the year ended 30 June 2004 and before lodgement of this Prospectus with ASIC;
- IAG's constitution and the Issuer's constitution; and
- the Trust Deed.

These documents may be obtained by request from the Registry at the address on the inside back cover of this Prospectus. However, the above documents do not form part of this Prospectus.

10.2 Consents

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

Each of the parties (referred to as Consenting Parties), who are named below:

- (a) has not made any statement in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified in paragraphs (d) to (f) below;
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements or omissions from this Prospectus, other than the reference to its name and statements or reports included in this Prospectus with the consent of that Consenting Party;
- (c) has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named;
- (d) IAG has given and has not before lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of statements or information by or on IAG or the Group in the form or context in which they appear;
- (e) in the case of Mallesons Stephen Jaques, have given and have not, before the lodgement of this Prospectus with ASIC, withdrawn their written consent to the inclusion of the Taxation Letter in the form and context in which it appears in Section 8; and
- (f) in the case of S&P, has given, and has not, before lodgement of this Prospectus with ASIC, withdrawn its consent to inclusion of the statements in this Prospectus as they relate to various of its ratings and to being named in this Prospectus in the form and context to which it is so named:

Role	Consenting Parties
Lead Manager & Bookrunner	UBS AG, Australia Branch
Senior Co-Managers	Citigroup Global Markets Australia Pty Limited Goldman Sachs JBWere Pty Limited Macquarie Equities Limited Ord Minnett Limited UBS Private Clients Australia Limited
Co-Managers	Bell Potter Securities Limited Commonwealth Securities Limited Deutsche Securities Australia Limited Grange Securities Limited Tricom Equities Limited
Legal and tax advisers	Mallesons Stephen Jaques
Auditor	KPMG
Registry	Computershare Investor Services Pty Limited
Trustee	Permanent Trustee Company Limited
Custodian	National Australia Bank Limited
S&P	Standard & Poor's (Australia) Pty Limited
Portfolio Manager	IAG Asset Management Limited

10.3 Interests of advisers

UBS AG, Australia Branch has acted as Lead Manager & Bookrunner, in respect of which it will receive the fees set out in Section 9.5.2.

Citigroup Global Markets Australia Pty Limited; Goldman Sachs JBWere Pty Limited; Macquarie Equities Limited; Ord Minnett Limited and UBS Private Clients Australia Limited, are acting as Senior Co-Managers.

Bell Potter Securities Limited; Commonwealth Securities Limited; Deutsche Securities Australia Limited; Grange Securities Limited and Tricom Equities Limited, are acting as Co-Managers.

The Lead Manager & Bookrunner will be responsible for fees payable to each Senior Co-Manager and Co-Manager as set out in Section 9.5.2.

Mallesons Stephen Jaques have acted as legal and tax advisers to the Issuer in relation to the Offer and have performed work in relation to preparing the due diligence and verification programme, performing due diligence required on legal matters and tax advice and preparing the Taxation Letter included in Section 8. In respect of this work, the Issuer estimates that it will pay approximately

\$2,000,000 (excluding disbursements and GST) to Mallesons Stephen Jaques. Further amounts may be paid to Mallesons Stephen Jaques according to their normal time-based charges.

KPMG have acted as the auditor for IAG and will be the auditor of the Issuer, and KPMG Transaction Services performed professional services to assist management in its due diligence inquiries on financial matters. The Issuer estimates that it will pay approximately \$300,000 (excluding disbursements and GST) to KPMG and KPMG Transaction Services. Further amounts may be paid to KPMG and KPMG Transaction Services according to their normal time-based charges.

10.4 Interests of directors

No shares or other securities in the Issuer are held by the Directors or any directors of IAG.

The table below sets out interests in Ordinary Shares held by the Directors as at the date of this Prospectus. None of the persons listed below hold any RPS1 and/or RPS2.

Name	Ordinary Shares
Mr JA Strong ^{1, 2}	141,205
Ms Y Allen ²	-
Mr JF Astbury ²	28,335
Mr GA Cousins ²	168,252
Mr ND Hamilton ²	65,277
Mr RA Ross ^{1, 2}	142,610
Mr MJ Hawker ^{1, 2}	188,919
Mr G Venardos ¹	12,565
Mr M Woods ¹	14,184

Notes:

1 Director.

2 IAG Director.

Mr RA Ross is an executive director of Macquarie Bank Limited, whose related corporation is a Co-Manager to the Offer.

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

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

Except as set out above, no amount (whether in cash or shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any Director, IAG Director or proposed Director or proposed IAG Director nor any firm in which any Director, IAG Director or proposed Director or proposed IAG Director is a partner, either to induce them to become, or to qualify them as, a Director or IAG Director or otherwise for services provided by them in connection with the formation or promotion of the Issuer or with the Offer.

10.5 ASIC relief

The Issuer has received ASIC relief under section 741(1) of the Corporations Act from the operation of section 707(3) and (4) of the Corporations Act, to allow Ordinary Shares issued on Conversion of Preference Shares to be on-sold in the secondary market without additional disclosure. The Issuer has also received ASIC relief to include a Financial Services Guide in this Prospectus.

10.6 ASX relief

An application for 'in principle' relief has been made to ASX for the following confirmations or waivers:

- Listing Rule 1.1, Condition 1: a confirmation that the structure and operations of the Issuer are appropriate for a listed entity;
- Listing Rule 1.3: a confirmation that the Issuer is not an 'investment entity';
- Listing Rule 1.3.5: a confirmation that the Issuer does not need to provide the accounts and audit reports for the last three financial years or a review of the pro forma statement of financial position;
- Listing Rule 4.8: a waiver from the requirement that the Issuer give ASX the latest financial accounts of IAG (NZ) Holdings together with any auditor's reports or statements;
- Listing Rule 6.1: a confirmation that RES and Preference Shares are, in ASX's opinion, appropriate and equitable;
- Listing Rule 6.10: a confirmation that the reset provisions in the RES Terms do not contravene the requirement that an entity must not change a security holder's right to receive distributions;
- Listing Rule 6.12: a confirmation that it is appropriate and equitable that RES Holders and Preference Shareholders may be divested of securities upon Redemption, Conversion or Exchange;

- Listing Rule 7.1: relief so that IAG in calculating the number of RES that can be issued, can notionally convert the RES into Ordinary Shares at the last market price of Ordinary Shares prior to announcement of the Offer and that Exchange and Conversion will have no further impact under that Listing Rule;
- Listing Rule 10.11: a confirmation regarding the restriction on directors of, and funds under management by, the Issuer and IAG participating in the Offer and as it may apply to Conversion or Exchange; and
- Listing Rule 11: a waiver to permit the Issuer to make a significant change to the nature and scale of its activities without seeking ordinary shareholder approval consequent on Redemption, Conversion or Exchange.

10.7 Foreign selling restrictions

The distribution of this Prospectus (including an electronic copy) in jurisdictions outside Australia may be restricted by law. If you come into possession of this Prospectus in jurisdictions outside Australia, then you should seek advice on, and observe, any such restrictions. If you fail to comply with such restrictions, that failure may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify RES or the Offer or to otherwise permit a public offering of RES in any jurisdiction outside Australia.

10.7.1 United States

This Prospectus does not constitute an offer of any RES in the United States or to any US Person.

RES have not been, and will not be, registered under the US Securities Act. Therefore, RES may not be offered or sold, directly or indirectly, in the United States or to, or for the account or benefit of, US Persons except according to an available exemption from the registration requirements of the US Securities Act. Each person submitting an Application Form or otherwise purchasing RES through the Offer will be deemed to have:

- (a) acknowledged that RES have not been, and will not be, registered under the US Securities Act, and may not be offered, sold or resold in the United States or for the account or benefit of a US Person except in accordance with an available exemption from registration; and
- (b) represented, warranted and agreed as follows:
 - (i) it is not in the United States or a US Person and is not acting for the account or benefit of a US Person;

- (ii) it is not engaged in the business of distributing RES, or, if it is, it will not offer, sell or resell in the United States or to any US Person any RES it acquires:
 - (A) under or according to the Offer; or
 - (B) other than under or according to the Offer until the end of 40 days after the date on which RES are Allocated under the Offer (other than by way of ordinary brokerage transactions on ASX where neither the seller nor any person acting on its behalf knows, or has reason to know, that the sale has been prearranged with, or that the purchaser is, a person in the United States); and
- (iii) if it is entitled to receive any fees or commission in connection with any purchase of RES to which the Application or bid relates, it will not directly or indirectly pay or re-allow any portion of such fee or commission to any other person.

Any person who is in the United States, is a US Person or does not make the representation and warranty set out above is not entitled to acquire any RES.

Until 40 days after the commencement of the Offer, an offer or sale of RES in the United States or to any US Person by any dealer (whether or not participating in the Offer) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the US Securities Act. Terms used in this Section 10.7 have the meanings given to them by Regulation S under the US Securities Act.

10.7.2 New Zealand

This Prospectus has not been and will not be registered in New Zealand. RES may not be offered or sold directly or indirectly in New Zealand.

10.8 Restrictions on ownership for IAG

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

10.9 Summary of rights and liabilities attaching to Ordinary Shares

Any Ordinary Shares resulting or issued on Conversion of RES or Preference Shares will rank equally with existing Ordinary Shares on issue. The rights attaching to Ordinary Shares are set out in IAG's constitution and are also regulated by the Corporations Act, the Listing Rules and general law. See Section 10.1 for information on how to obtain a copy of IAG's constitution.

The remainder of this Section 10.9 summarises the key rights and liabilities attaching to Ordinary Shares:

10.9.1 Dividend entitlement

Payment of dividends on Ordinary Shares is subject to the IAG Directors determining a dividend to be payable.

IAG Directors may only declare a dividend if IAG complies at the time of declaration with APRA's then prevailing prudential standards and there are sufficient profits in IAG out of which IAG is lawfully able to pay dividends.

Subject to the rights of any other persons entitled to shares with special dividend rights (such as an RPS Holder or Preference Shareholder if issued), and subject to the term 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 any partly paid shares are entitled to participate pro-rata according to the amount paid on the shares.

10.9.2 Voting rights

Ordinary Shareholders are entitled to notice of, and to attend and vote, at general meetings of IAG. At a general meeting of IAG, every Ordinary Shareholder present in person or by proxy or attorney or, in the case of a member that is a corporation, by its duly authorised representative has, subject to the Listing Rules, one vote on a show of hands and, on a poll, one vote for each Ordinary Share held.

10.9.3 Transferability of Ordinary Shares

While the Ordinary Shares are quoted on ASX, Ordinary Shareholders will generally be able to sell or transfer Ordinary Shares without restriction. This is subject to the limitations described in Section 10.8 in relation to the Financial Sector (Shareholdings) Act 1998 (Cwlth), the Listing Rules and IAG Directors' ability to decline to register a transfer in certain limited circumstances.

10.9.4 Entitlement of Ordinary Shares on winding-up

Ordinary Shareholders are entitled to share in any surplus assets on a winding-up in proportion to the amount of capital paid up. IAG's constitution also gives Ordinary Shareholders the right to approve by Special Resolution various alternative ways in which surplus assets may be dealt with by the liquidator.

10.9.5 Continuous and periodic disclosure

Ordinary Shareholders are entitled to receive information required to be distributed under the Corporations Act and Listing Rules. IAG also makes publicly available through its website, www.iag.com.au, information required to be disclosed under its continuous disclosure obligations.

10.10 Acknowledgement and privacy statement

By returning an Application Form, you acknowledge that you have received and read this Prospectus.

The information about you included on an Application Form is used for the purposes of processing the Application and, if it is successful, to administer your RES (and, if issued, your holding of Preference Shares or Ordinary Shares). By submitting an Application Form, you agree that the Issuer or IAG may use the information provided by you on the Application Form for the purposes set out in this privacy statement and may disclose it for those purposes to the Lead Manager & Bookrunner, Registry and the Group's agents, contractors and third party services providers (including mail houses and financial advisers) and to ASX and other regulatory authorities.

If you become a RES Holder, the Corporations Act requires the Issuer and, upon Exchange or Conversion, IAG to include information about RES Holders, Preference Shareholders or Ordinary Shareholders (including name, address and details of the securities held) in its public Register. The information contained in the Register must remain there even if you cease to be a RES Holder or a Preference Shareholder or Ordinary Shareholder. Information contained in the Register is also used to facilitate payments, including Interest Payments and Dividends and corporate communications (including the Issuer's and/or IAG's financial statements, annual reports and other information communicated to RES Holders, Preference Shareholders or Ordinary Shareholders) and to ensure compliance by the Issuer and IAG with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Issuer may not be able to accept or process the Application.

If you are an individual, you have a right to gain access to information that the Issuer or IAG hold about you, subject to certain exemptions under law. The Issuer or IAG are permitted to charge a fee for such access, though do not intend to do so. Access requests must be made in writing to the Issuer's or IAG's registered office as detailed on the inside back cover of this Prospectus.

If you think the Registry's record of your personal information is incorrect or out of date, it is important that you contact the Issuer or IAG so that your records can be corrected.

If you used a financial adviser who recommended your investment in RES (as indicated on your Application Form), then details of your RES holding may be provided to that financial adviser.

Appendix A Prospectus glossary

The following is a glossary of terms used in this Prospectus including terms commonly used in the general insurance industry. There is also a list of definitions in clause 16.2 of the RES Terms and clause 9.2 of the Preference Share Terms.

Defined words and expressions in this Prospectus glossary and in clause 16.2 of the RES Terms and clause 9.2 of the Preference Share Terms are used throughout this Prospectus and the Application Forms unless the context otherwise requires. If there is any inconsistency between the definitions in this Prospectus glossary and the definitions in the RES Terms or the Preference Share Terms, then the definition in the RES Terms or the Preference Share Terms, as applicable, shall apply.

AASB	Australian Accounting Standards Board
ABN	Australian Business Number
Acquisition Event	has the meaning given in clause 16.2 of the RES Terms
ACN	Australian Company Number
ADI	authorised deposit-taking institution according to the Banking Act 1959 (Cwlth)
AFSL	Australian Financial Services Licence
A-IFRS	Australian equivalents to IFRS
Allocation	the number of RES allocated to successful Applicants Allocate and Allocated have corresponding meanings
Applicant	a person who submits an Application
Application	a valid application made according to this Prospectus by using the applicable Application Form to apply for a specified number of RES
Application Form	each of the application forms attached to, or accompanying, this Prospectus upon which an Application for RES may be made: <ul style="list-style-type: none">• the blue Application Form in the back of this Prospectus,• the yellow personalised Application Form supplied by the Issuer upon request to Eligible RPS Holders; and• the electronic Application Form made available by the any Senior Co-Manager, Co-Manager or Participating Broker
Application Payment	the monies payable on Application, calculated by multiplying the specified number of RES applied for by the Issue Price
APRA	Australian Prudential Regulation Authority (ABN 79 635 582 658)
APRA Distributable Profits	the profits available to pay a Dividend calculated according to clause 2.3(d) of the Preference Share Terms
ARBN	Australian Registered Body Number
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited (ABN 98 008 624 691)
Austraclear System	the facility established by Austraclear Limited (ABN 94 002 060 773), or any of its subsidiaries or successors, for the lodgement, custody or transfer of securities
Australian Accounting Standards	(a) the accounting standards as defined in section 9 of the Corporations Act; (b) the requirements of the Corporations Act for the preparation and content of accounts; and (c) generally accepted accounting principles and practices consistently applied in Australia, including any domestically accepted international accounting standards, except principles and practices that are inconsistent with those referred to in paragraph (a) or (b) of this definition

Australian Bond Fund Rating	a current opinion by S&P of a fund's protection against losses from credit default
Australian GAAP	the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements set by the AASB
Bank Bill Rate	<ul style="list-style-type: none"> • in the case of an Interest Period: <ul style="list-style-type: none"> (a) for the first Interest Period, the higher of 5.50% per annum and the rate determined according to (b) on the Issue Date; and (b) after the first Interest Period, the average mid-rate for 90 day bank bills (expressed as a percentage per annum) which average rate is displayed on Reuters page BBSW (or any page that replaces that page) on the first Business Day of the Interest Period, and as otherwise provided in clause 3.1 of the RES Terms; and • in the case of a Dividend Period: <ul style="list-style-type: none"> (c) for the first Dividend Period, if the Preference Share Issue Date is other than 15 March, 15 June, 15 September or 15 December (or other than the Business Day following that day if that day is not a Business Day), the Bank Bill Rate applicable to RES immediately prior to the issue of the Preference Shares; otherwise (d) the average mid-rate for 90 day bank bills (expressed as a percentage per annum) which average rate is displayed on Reuters page BBSW (or any page that replaces that page) on the first Business Day of the Dividend Period, and as otherwise provided in clause 2.1 of the Preference Share Terms
Bookbuild	the process described in Section 4.2.1
Broker Firm Applicant	an Applicant who applies through a Senior Co-Manager, Co-Manager or Participating Broker for a broker firm Allocation according to the Broker Firm Offer
Broker Firm Offer	the invitation made to Australian resident retail clients of Senior Co-Managers, Co-Managers or Participating Brokers to apply for a broker firm Allocation from the relevant Senior Co-Manager, Co-Manager or Participating Broker according to this Prospectus
Business Day	a business day as defined in the Listing Rules
Cash	cash as defined in the PMA which includes the credit balance of the Custodian Bank Account and overnight or 24 hour call deposits with ADIs with a short-term credit rating of at least 'A-1' by S&P
Ceded	to transfer liability in connection with a risk, or portion of it, from the original insurer to the reinsurer
CGT	capital gains tax
CGU	CGU Insurance Australia Limited (ABN 62 004 478 960) and its controlled entities
Charge	a fixed charge granted by the Issuer in favour of the Trustee over the Issuer's right, title and interest in the PMA and certain intra-group receivables provided for in the Trust Deed. The Trustee holds this charge for the benefit of RES Holders and to a limited extent, for Secured Creditors
CHES	Clearing House Electronic Sub-register System operated by an associate of ASX
Claims Handling Expense	the expense of settling claims, including legal and other fees and general expenses
Closing Dates	the last day on which Applications will be accepted, expected to be ¹ : <ul style="list-style-type: none"> • 5.00pm on 5 January 2005 for the RPS Holder Offer and the General Offer; and • 10.00am on 7 January 2005 for the Broker Firm Offer
Co-Managers	Bell Potter Securities Limited (ABN 25 006 390 772, AFSL No. 243480); Commonwealth Securities Limited (ABN 60 067 254 399, AFSL No. 238814); Deutsche Securities Australia Limited (ABN 65 003 204 368, AFSL No. 238160); Grange Securities Limited (ABN 12 066 797 760, AFSL No. 246572); and Tricom Equities Limited (ABN 92 067 161 755, AFSL No. 238148).
Combined Operating Ratio	the total of Net Claims Expense and Underwriting Expense, as a percentage of Net Earned Premium. It is equivalent to the sum of the Loss Ratio and Expense Ratio

Note: ¹ The Issuer, IAG and the Lead Manager & Bookrunner may agree: to extend the Closing Dates; to close the Offer early without notice; or to withdraw the Offer at any time before RES are issued. Also, ASIC may extend the Exposure Period by up to seven days in which case the Opening Date will be varied accordingly, without notice.

Consenting Party	each of the consenting parties named in Section 10.2
Conversion	<p>the process through which:</p> <ul style="list-style-type: none"> • RES are redeemed by the Issuer and converted into a number of Ordinary Shares calculated according to the Conversion Number and issued directly to the RES Holder according to clause 4, 5 and 7 of the RES Terms; and • Preference Shares are converted into a number of Ordinary Shares calculated according to the Conversion Number and issued to Preference Shareholders according to clause 3 of the Preference Share Terms <p>Convert, Converted and Convertible have corresponding meanings</p>
Conversion Number	the formula used to determine the number of Ordinary Shares issued on Conversion for each RES according to clause 7.2 of the RES Terms and for each Preference Share according to clause 3.7 of the Preference Share Terms
Corporations Act	Corporations Act 2001 (Cwth)
Custodian Bank Account	is an account with the Custodian's bank or, if the Custodian is an ADI, in its own books, into and from which payments in respect of the Portfolio and RES are made
CTP	compulsory third party insurance
Custodian	National Australia Bank Limited (ABN 12 004 044 937)
Directors	some or all of the directors of the Issuer, acting as a board
Distributable Portfolio Income Amount	with respect to an Interest Period, the Net Portfolio Income for the Interest Period divided by the number of RES on issue at the end of the Interest Period
Distributable Portfolio Proceeds Amount	with respect to a Realisation Date, the Net Portfolio Proceeds divided by the number of RES on issue on the relevant Realisation Date
Dividend	a dividend on Preference Shares according to clause 2 of the Preference Share Terms
Dividend Payment Date	each date that a Dividend is due, which will be 15 March, 15 June, 15 September and 15 December, or the first Business Day following these dates if they do not fall on a Business Day, and any Preference Share Exchange Date, according to clause 2.5 of the Preference Share Terms
Dividend Payment Tests	the conditions to the payment of a Dividend according to clause 2.3 of the Preference Share Terms
Dividend Period	a period from (and including) either the Preference Share Issue Date or a Dividend Payment Date (whichever is the later) until (but not including) the following Dividend Payment Date
Dividend Rate	the dividend rate on Preference Shares calculated according to clause 2.1 of the Preference Share Terms
Eligible Assets	assets that are eligible to be held in the Portfolio according to the PMA – see Section 9.3.6.1
Eligible RPS Holder	a registered RPS Holder with an address in Australia on the Register at 7.00pm on 19 November 2004
Eligible Security	a security that is eligible to be held in the Portfolio according to the PMA – see Section 9.3.6.1
Enforcement of Security	an Event of Default is subsisting and the Trustee has decided to exercise its right to enforce the security according to the Trust Deed
Event of Default	an event of default as defined in the Trust Deed and as summarised in Section 9.2.7
Exchange	<p>the process through which IAG may exercise its Exchange Right and RES are redeemed and Preference Shares are issued according to clause 8 of the RES Terms</p> <p>Exchanged and Exchangable have corresponding meanings</p>
Exchange Notice	a notice given to RES Holders by IAG upon exercise of its Exchange Right
Exchange Right	the right that IAG has to Exchange RES for Preference Shares at any time according to clause 8 of the RES Terms
Expense Ratio	the ratio of Underwriting Expense to Net Earned Premium
Exposure Period	the period from 22 November 2004 to the Opening Date ¹

Note: 1 The Issuer, IAG and the Lead Manager & Bookrunner may agree: to extend the Closing Dates; to close the Offer early without notice; or to withdraw the Offer at any time before RES are issued. Also, ASIC may extend the Exposure Period by up to seven days in which case the Opening Date will be varied accordingly, without notice.

Financial Services Guide	the Lead Manager & Bookrunner's Financial Services Guide in Appendix D
General Offer	the invitation to Australian resident members of the general public to apply for RES according to this Prospectus
Gross Written Premium or GWP	the total premiums relating to insurance policies underwritten by an insurer or reinsurer during a specific period, before deduction of Reinsurance premiums
Group	IAG and its controlled entities
GST	goods and services tax
Holding Statement	a statement issued to RES Holders by the Registry which sets out details of their Allocation
IAG	Insurance Australia Group Limited (ABN 60 090 739 923)
IAG AM	IAG Asset Management Limited (ABN 94 054 552 046, AFSL No. 227676)
IAG Directors	some or all of the directors of IAG, acting as a board
IAG Entity	IAG and each of its related bodies corporate
IAG Finance (NZ)	IAG Finance (New Zealand) Limited (ABN 97 111 268 243)
IAG (NZ) Holdings	IAG (NZ) Holdings Limited (NZ 1113664)
IAG Portfolio	IAG Portfolio Limited (ABN 38 111 769 843)
IAG Profits Test	IAG must have either (or both) of the following: <ul style="list-style-type: none"> • sufficient profits equal to or greater than the aggregate Interest Payment on a relevant Interest Payment Date; or • paid a dividend on any class of its capital in the 12 month period before the relevant Interest Payment Date, as detailed in clause 3.3(b) of the RES Terms
IAG Re	IAG Re Limited (ARBN 097 791 145)
IAL	Insurance Australia Limited (formerly NRMA Insurance Limited) (ABN 11 000 016 722, AFSL No. 227681)
IFRS	International Financial Reporting Standards
Institutional Investor	an investor to whom offers of securities can be made without the need for a prospectus (or other formality, other than a formality which the Issuer is willing to comply with), including in Australia persons to whom offers of invitations in respect of securities can be made without the need for a lodged prospectus under part 6D of the Corporations Act
Institutional Offer	the invitation to certain Institutional Investors to bid for RES in the Bookbuild and apply for RES according to this Prospectus
Insurance Margin	the ratio of Insurance Profit to Net Earned Premium
Insurance Profit	Underwriting Result plus investment income on Technical Reserves
Insurer Financial Strength Rating	a current opinion by S&P of the financial security characteristics of an insurance organisation with respect to its ability to pay under its insurance policies and contracts in accordance with their terms
Interest Payment	an interest payment on RES calculated according to clause 3.1 of the RES Terms
Interest Payment Date	each date that an Interest Payment is due, which will be 15 March, 15 June, 15 September and 15 December, or the first Business Day following these dates if they do not fall on a Business Day, and any Realisation Date, according to clause 3.7 of the RES Terms
Interest Payment Tests	the conditions to the payment of an Interest Payment according to clause 3.3 of the RES Terms
Interest Period	a period from (and including) either the Issue Date or an Interest Payment Date (whichever is later) until (but not including) the following Interest Payment Date
Interest Rate	the interest rate on RES calculated according to clause 3.1 of the RES Terms
Interest Rate Floor	the interest rate floor between IAG Portfolio and IAL as summarised in Section 9.4
Investment Mandate	the requirements for investment of the Portfolio according to the PMA as summarised in Section 9.3.6
Issue Credit Rating	a current opinion by S&P of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program

Issue Date	the date RES are issued to RES Holders, expected to be ¹ 11 January 2005
Issue Price	the issue price for RES, being \$100 per RES
Issuer	IAG Finance (NZ), through its New Zealand branch
Lead Manager & Bookrunner	UBS AG, Australia Branch (ABN 47 088 129 613, AFSL No. 231087) as exclusive lead manager, arranger and bookrunner appointed according to the Offer Management Agreement
Liquidation Event	has the meaning given in clause 16.2 of the RES Terms
Listing Rules	the listing rules of ASX, with any modifications or waivers in their application to the Issuer or IAG, which ASX may grant
Long-tail	classes of insurance (such as CTP and workers' compensation insurance) with an average period between the time when premiums are received and final settlement of claims which is generally greater than 12 months
Long-Term Counterparty Credit Rating	a current opinion by S&P of an obligor that has a very strong capacity to meet its financial commitments
Loss Ratio	the ratio of Net Claims Expense to Net Earned Premium
MCR	minimum capital requirement for a regulated general insurance company as defined by APRA
Minimum Bank Bill Rate	5.50% per annum
Mortgage	a mortgage granted by IAG Portfolio in favour of the Trustee over the Portfolio, and a floating charge over IAG Portfolio's rights, property and undertaking in relation to the Portfolio
Net Claims Expense	insurance claim losses incurred plus Claims Handling Expense minus Recoveries
Net Earned Premium	Gross Written Premium less premiums Ceded to reinsurers plus or minus movements in Unearned Premium
Net Portfolio Income	the net cash income received on or in respect of the Portfolio in an Interest Period determined by IAG Portfolio according to the PMA and as defined in clause 16.2 of the RES Terms
Net Portfolio Proceeds	the net cash proceeds received on realisation of the Portfolio (either in whole or in part depending on the proportion of RES being Redeemed, Converted or Exchanged) less any amount attributable to Net Portfolio Income for an Interest Period and any amounts owing to the Trustee or Custodian or a receiver, as defined in clause 16.2 of the RES Terms
NOHC	non-operating holding company as defined by APRA
NZI	Belvel Investments Limited and its controlled entities (including New Zealand Insurance Limited)
Offer	the offer of RES according to this Prospectus at an Issue Price of \$100 each to raise up to \$500 million – with the ability to accept oversubscriptions for up to \$50 million
Offer Management Agreement	the offer management agreement entered into between the Issuer, IAG and the Lead Manager & Bookrunner as summarised in Section 9.5
Offer Period	the period from the Opening Date to the Closing Dates
Opening Date	the day the Offer opens, expected to be ¹ 30 November 2004
Optional Dividend	a payment to Preference Shareholders, made at IAG's discretion, for any Dividend that is not paid because the Dividend Payment Tests are not satisfied
Optional Interest Payment	a payment to RES Holders, made at the Issuer's discretion, for any Interest Payment that is not paid because the Interest Payment Tests are not satisfied
Ordinary Share	a fully paid ordinary share in the capital of IAG
Ordinary Share Issue Price	as defined in clause 16.2 of the RES Terms
Ordinary Shareholder	a holder of Ordinary Shares
Original Prospectus	the prospectus that was lodged with ASIC on 22 November 2004 which is replaced by this Prospectus
Participating Broker	any participating organisation of ASX selected by the Lead Manager & Bookrunner to participate in the Broker Firm Offer

Note: 1 The Issuer, IAG and the Lead Manager & Bookrunner may agree: to extend the Closing Dates; to close the Offer early without notice; or to withdraw the Offer at any time before RES are issued. Also, ASIC may extend the Exposure Period by up to seven days in which case the Opening Date will be varied accordingly, without notice.

Performance Share Rights Plan	a form of equity compensation for employees of the Group. On satisfaction of a performance hurdle, participating employees are able to exercise these rights, which convert into new Ordinary Shares.
PMA	the portfolio management agreement between the Issuer, IAG, IAG Portfolio, IAG AM, the Trustee and the Custodian as summarised in Section 9.3
Portfolio	the portfolio of high quality, short-dated fixed interest securities acquired by IAG Portfolio according to the PMA
Portfolio Asset	an asset included in the Portfolio
Portfolio Deficit	has the meaning given in Section 9.2.9
Portfolio Manager	IAG AM, or any portfolio manager appointed according to the PMA
Portfolio Parameters	the criteria which the portfolio must meet at any time according to the PMA, as detailed in Section 9.3.6.2
Portfolio Principal Balance	on any date, the aggregate of the purchase prices of the Portfolio Securities and the aggregate amount of Cash
Portfolio Security	a security included in the Portfolio
Preference Share	a fully paid preference share in the capital of IAG issued on Exchange according to the Preference Share Terms
Preference Shareholder	a holder of Preference Shares
Preference Share Conversion Discount	the RES Conversion Discount on the Preference Share Issue Date according to clause 3.7(b) of the Preference Share Terms
Preference Share Exchange Date	the date that Preference Shares are Redeemed or Converted according to clause 3.4(d) of the Preference Share Terms
Preference Share Initial Margin	the RES Margin as at the Preference Share Issue Date
Preference Share Issue Date	the date on which Preference Shares, are issued to RES Holders on Exchange according to clause 8.3 of the RES Terms
Preference Share Issue Price	the issue price of each Preference Share, being an amount equal to the Redemption Amount according to clause 8.4(a)(i) of the RES Terms
Preference Share Margin	the margin on Preference Shares, which is: <ul style="list-style-type: none"> • from the Preference Share Issue Date until the Step-Up Date, the Preference Share Initial Margin; and • from the Step-Up Date, if Preference Shares are not Redeemed or Converted, the Step-Up Margin
Preference Share Terms	the full terms of issue of Preference Shares in Appendix C
Probability of Sufficiency	the estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. APRA's prudential standard GPS 210 requires general insurers to maintain a minimum probability of sufficiency of claims reserves of 75% for the purpose of assessing solvency under the Insurance Act 1973 (Cwlth)
Prospectus	this replacement prospectus that was lodged with ASIC on 29 November 2004 and replaces the Original Prospectus
RACV	Royal Automobile Club of Victoria (RACV) Limited (ACN 004 060 833)
Rating Outlook	an outlook that assesses the potential direction of a Long-Term Counterparty Credit Rating over the intermediate term (typically six months to two years). In determining a Rating Outlook, consideration is given to any changes in the economic and/or fundamental business conditions. It is not necessarily a precursor of a rating change or future creditwatch action
Realisation Account	the account in the name of the Trustee with an ADI into which only amounts received upon realisation of all or a part of the Portfolio must be credited
Realisation Date	the date that RES are Redeemed, Converted or Exchanged

Record Date	11 Business Days before an Interest Payment Date or a Dividend Payment Date according to clause 16.2 of the RES Terms or clause 9.2 of the Preference Share Terms (as applicable) or as required by ASX or determined by the Directors or IAG Directors (respectively)
Recoveries	the amount of claims recovered from reinsurers, third parties or salvage
Redeem	the process through which: <ul style="list-style-type: none"> • RES are redeemed by the Issuer for the Redemption Amount to be paid in cash according to clause 4.1(a) of the RES Terms; and • Preference Shares are redeemed by IAG for the Preference Share Issue Price to be paid in cash according to clause 3.1(a) of the Preference Share Terms Redeemed and Redemption have the corresponding meaning
Redemption Amount	\$100 per RES. However, if the Net Portfolio Proceeds per RES is less than \$100 on any Realisation Date the Redemption Amount will be reduced to the Distributable Portfolio Proceeds Amount according to clauses 4.7 and 4.8 of the RES Terms
Register	the official register of Ordinary Shares, RPS1, RPS2 and Preference Shares (if issued) maintained by IAG and the official register of RES maintained by the Issuer and includes any sub-register established and maintained under CHESS
Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registry that the Issuer or IAG appoints to maintain the Register
Regulatory Event	with respect to RES, as defined in clause 16.2 of the RES Terms and with respect to Preference Shares as defined in clause 9.2 of the Preference Share Terms
Reinsurance	the process through which insurers pay premiums to other insurers (reinsurers) to spread their risk or cover major losses from specific events such as large hailstorms.
RES	perpetual reset exchangeable securities issued by the Issuer according to this Prospectus and the RES Terms. RES are unsecured notes for the purposes of section 283BH of the Corporations Act
RES Conversion Discount	until the first Reset Date, 2.50% and after that as changed on any Reset Date according to clause 9 of the RES Terms
RES Holder	a holder of RES
RES Initial Margin	until the first Reset Date, 1.20% per annum
RES Margin	until the first Reset Date, the RES Initial Margin and after that, as changed on any Reset Date according to clause 9 of the RES Terms
RES Terms	the full terms of issue of RES in Appendix B
Reset Date	the first Reset Date is 15 March 2010 and after that, as changed on any Reset Date according to clause 9 of the RES Terms
Risks in Force	risks refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force is a measure of the total number of risks covered by an insurance company at a point in time
RPS Holder	a holder of RPS1 or RPS2
RPS Holder Offer	the invitation to Eligible RPS Holders to apply for RES according to this Prospectus
RPS1	the 3.5 million reset preference shares issued by IAG according to a prospectus dated 6 May 2002
RPS2	the 2 million reset preference shares issued by IAG according to a prospectus dated 20 May 2003
S&P	means, in relation to the Australian Bond Fund Rating applicable to the Portfolio, Standard & Poor's Investment Services, and in all other instances Standard & Poor's Rating Services
Secured Creditor	has the meaning given in Section 9.2.2
Senior Co-Managers	Citigroup Global Markets Australia Pty Limited (ABN 64 003 114 832, AFSL No. 240992); Goldman Sachs JBWere Pty Limited (ABN 21 006 797 897, AFSL No. 243346); Macquarie Equities Limited (ABN 41 002 574 923, AFSL No. 237504); Ord Minnett Limited (ABN 86 002 733 048, AFSL No. 237121); and UBS Private Clients Australia Limited (ABN 50 005 311 937, AFSL No. 231127).

SGIC	SGIC General Insurance Limited (ABN 68 069 065 158, AFSL No. 227679)
SGIO	SGIO Insurance Limited (ABN 30 058 277 866, AFSL No. 227680)
Shareholders' Funds	the investment portfolio other than Technical Reserves. It essentially represents the shareholders' capital that is not being utilised in day-to-day operations
Shortfall	as defined in Section 9.4
Short-tail	classes of insurance (such as motor, home and commercial property) with an average period between the time when premiums are received and final settlement of claims which is generally less than 12 months
Special Resolution	a resolution which, to pass at a meeting of Ordinary Shareholders, RES Holders or Preference Shareholders (as applicable) requires at least 75% of the votes validly cast by Ordinary Shareholders, RES Holders or Preference Shareholders (as applicable) in person or by proxy and entitled to vote on the resolution, and has been so passed
Step-Up Date	the first Dividend Payment Date 10 years after the Preference Share Issue Date
Step-Up Margin	Preference Share Initial Margin plus a one time step-up of 1.00% per annum
Swann Insurance	Swann Insurance (Aust) Pty Limited (ABN 80 000 886 680, AFSL No. 238292)
Tax Event	as defined in clause 16.2 of the RES Terms and clause 9.2 of the Preference Share Terms
Tax Rate	the Australian corporate tax rate applicable to IAG's franking account at the relevant Interest Payment Date or Dividend Payment Date. As at the date of this Prospectus, the Tax Rate was 0.30 (expressed as a decimal)
Taxation Letter	the taxation letter from Mallesons Stephen Jaques dated 22 November 2004 in Section 8
Technical Reserves	the investments held to back provisions for outstanding claims (including incurred but not reported and incurred but not enough recorded) and Unearned Premium, net of Recoveries and premium debtors
TFN	Tax File Number
Tier 1 Capital	tier 1 capital as described by APRA
Tier 2 Capital	tier 2 capital as described by APRA
Transaction Documents	the Trust Deed, PMA and any other document entered into in connection with any of them
Trigger Event	as defined in clause 16.2 of the RES Terms
Trust Deed	the trust deed between the Issuer, IAG, IAG Portfolio and the Trustee as summarised in Section 9.2
Trustee	Permanent Trustee Company Limited (ABN 21 000 000 993)
Underwriting	the process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk
Underwriting Expense	those expenses incurred as a result of Underwriting activities, including risk assessment, commission expenses and other acquisition expenses
Underwriting Result	Net Earned Premium less Net Claims Expense less Underwriting Expenses
Unearned Premium	the portion of premium written applicable to the unexpired portion of a policy
United States	the United States of America
Upper Tier 2 Capital	upper tier 2 capital as described by APRA
US Person	has the meaning given in Regulation S of the US Securities Act
US Securities Act	United States Securities Act of 1933, as amended
VWAP	the average of the daily volume weighted average sale prices of Ordinary Shares sold on ASX during the relevant period as defined in clause 16.2 of the RES Terms and clause 9.2 of the Preference Share Terms
Winding-Up Event	as defined in clause 16.2 of the RES Terms
Write-Off	as defined in clause 16.2 of the RES Terms

Appendix B RES Terms

1. Form, Issue Price, Face Value and ranking
2. Issue and transfer
3. Interest Payments
4. Redemption, Conversion and Exchange general provisions
5. Issuer Redemption or Conversion
6. RES Holder Redemption
7. Conversion actions
8. Exchange
9. Reset provisions
10. Payments and other matters
11. Amendment of these RES Terms
12. Notices
13. Substitution of Issuer
14. Quotation and Foreign RES Holders
15. Governing law and jurisdiction
16. Interpretation and definitions

The following are the RES Terms which apply to all RES.

1 Form, Issue Price, Face Value and ranking

1.1 Form

RES are perpetual reset exchangeable securities that are Redeemable for cash, Convertible into Ordinary Shares and Exchangeable into Preference Shares according to these RES Terms as supplemented by the Pricing Supplement. RES are debt obligations in registered uncertificated form constituted under, and issued according to, the Trust Deed and take the form of entries in the Register. No certificate will be issued to a RES Holder unless the Issuer determines that a certificate should be available or is required by any applicable law or regulation.

1.2 Issue Price and Face Value

Each RES will be issued at an Issue Price of \$100 and has a Face Value of \$100.

1.3 Ranking

Subject to the Transaction Documents, RES are secured limited recourse debt obligations of the Issuer, ranking equally among themselves. RES are unsecured notes for the purposes of section 283BH of the Corporations Act.

2 Issue and transfer

2.1 Effect of entries in Register

Each entry in the Register in respect of a RES constitutes:

- (a) an unconditional and irrevocable undertaking by the Issuer to the RES Holder to make all payments of principal and interest in respect of that RES according to these RES Terms; and
- (b) an entitlement to the other benefits given to the RES Holder under these RES Terms in respect of that RES.

2.2 Register conclusive

An entry in the Register in relation to a RES constitutes conclusive evidence that the person so entered is the absolute owner of that RES subject to correction for fraud or error. Except as required by law, the Issuer must treat the person entered in the Register in respect of a RES as the absolute owner of that RES.

2.3 Transfer

A RES Holder may, subject to this clause 2, transfer any RES:

- (a) by a proper ASTC transfer according to the ASTC operating rules;

- (b) by a proper transfer under any other computerised or electronic system recognised by the Corporations Act;
- (c) under any other method of transfer which operates in relation to the trading of securities on any securities exchange outside Australia on which RES are quoted and which is applicable to the Issuer; or
- (d) by any proper or sufficient instrument of transfer of marketable securities under applicable law.

The Issuer must not charge any fee on the transfer of a RES.

2.4 Market obligations

The Issuer must comply with the ASX Listing Rules, the ASTC operating rules, the Corporations Act and any other relevant obligations imposed on it in relation to the transfer of a RES.

2.5 Delivery of instrument

If an instrument is used to transfer RES according to clause 2.3, it must be delivered to the Registrar, together with such evidence (if any) as the Registrar reasonably requires to prove the title of the transferor to, or right of the transferor to transfer, the RES.

2.6 Refusal to register

The Issuer may only refuse to register a transfer of any RES if:

- (a) such registration would contravene the ASX Listing Rules or the ASTC operating rules; or
- (b) the Corporations Act or any other law or regulation binding on it forbids registration.

If the Issuer refuses to register a transfer, the Issuer must give the lodging party notice of the refusal and the reasons for it within five Business Days after the date on which the transfer was delivered to the Registrar.

2.7 Transferor to remain RES Holder until registration

A transferor of a RES remains the RES Holder in respect of that RES until the transfer is registered and the name of the transferee is entered in the Register.

3 Interest Payments

3.1 Interest Payments

Subject to these RES Terms, each RES entitles the RES Holder on a Record Date to receive on the relevant Interest Payment Date an interest payment (**Interest Payment**) calculated according to the following formula:

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

where:

Interest Rate (expressed as a percentage per annum) is calculated according to the following formula:

$$\text{Interest Rate} = (\text{Bank Bill Rate} + \text{RES Margin}) \times (1 - T)$$

where:

Bank Bill Rate (expressed as a percentage per annum) means, for an Interest Period, the average mid-rate for bills of a term of 90 days which average rate is displayed on Reuters page BBSW (or any page which replaces that page) on:

- (a) in the case of the first Interest Period, the Issue Date (however if that rate is less than 5.50% per annum, then the Bank Bill Rate for the first Interest Period will be 5.50% per annum); and
- (b) in the case of any other Interest Period, the first Business Day of that Interest Period,

or if there is a manifest error in the calculation of that average rate or that average rate is not displayed by 10.30am (Sydney time) on that date, the rate specified in good faith by the Issuer at or around that time on that date having regard, to the extent possible, to:

- (c) the rates otherwise bid and offered for bills of a term of 90 days or for funds of that tenor displayed on Reuters page BBSW (or any page which replaces that page) at that time on that date; and
- (d) if bid and offer rates for bills of a term of 90 days are not otherwise available, the rates otherwise bid and offered for funds of that tenor at or around that time on that date;

RES Margin (expressed as a percentage per annum) means in respect of the period:

- (a) to (but not including) the first Reset Date, the margin determined under the Bookbuild and stated in the Pricing Supplement (**RES Initial Margin**); and
- (b) between succeeding Reset Dates, the RES Margin determined according to clause 9; and

T (expressed as a decimal) means the Australian corporate tax rate applicable to the franking account of IAG at the relevant Interest Payment Date; and

N means in respect of:

- (a) the first Interest Payment Date, the number of days from (and including) the Issue Date until (but not including) the first Interest Payment Date; and
- (b) each subsequent Interest Payment Date, the number of days from (and including) the preceding Interest Payment Date until (but not including) the relevant Interest Payment Date.

3.2 Franking adjustments

If any Interest Payment is not franked to 100% under Part 3-6 of the Tax Act (or any provisions that revise or replace that Part), the Interest Payment will be calculated according to the following formula:

$$\text{Interest Payment} = \frac{\text{IP}}{1 - [\text{T} \times (1 - \text{F})]}$$

where:

IP means the Interest Payment calculated under clause 3.1 (subject to clause 3.3);

T has the meaning given in clause 3.1; and

F means the applicable Franking Rate.

3.3 Conditions to Interest Payments

Each Interest Payment is subject to:

- (a) the Distributable Portfolio Income Amount at the relevant Interest Payment Date; and
- (b) either (or both) of the following being satisfied:
 - (i) there are at the relevant Interest Payment Date distributable profits in IAG in an amount equal to or greater than the amount of the aggregate Interest Payments on all RES; or

- (ii) IAG has paid a dividend on any class of its capital in the period of 12 months prior to that Interest Payment Date.

If an Interest Payment exceeds the Distributable Portfolio Income Amount at the relevant Interest Payment Date, that Interest Payment is due and will be made only to the extent of the Distributable Portfolio Income Amount and that payment will satisfy all liability in respect of that Interest Payment. No Interest Payment will be made if the condition to payment in clause 3.3(b) is not met.

3.4 Interest Payments are non-cumulative

If all or any part of an Interest Payment is not paid on an Interest Payment Date because of clause 3.3, the Issuer has no liability to pay the unpaid amount of the Interest Payment and, notwithstanding the Issuer's discretion to pay an Optional Interest Payment according to clause 3.5, the RES Holder has no claim in respect of such non-payment.

3.5 Optional Interest Payments

If all or any part of an Interest Payment is not paid on an Interest Payment Date because of clause 3.3, the Issuer may, in its absolute discretion, on a date which it notifies to RES Holders, pay all or any part of the Interest Payment (**Optional Interest Payment**). Notwithstanding the Issuer's discretion to pay an Optional Interest Payment according to this clause 3.5, a RES Holder has no claim in respect of an Optional Interest Payment. An Optional Interest Payment is only payable to those persons registered as RES Holders on the Record Date in respect of the Optional Interest Payment.

3.6 Restrictions in the case of non-payment

If an Interest Payment has not been paid in full within 20 Business Days after the relevant Interest Payment Date because of clause 3.3(b), IAG must not, without approval of a Special Resolution:

- (a) declare or pay a dividend or make any distribution on any capital over which Preference Shares would, if issued, rank in priority for participation in profits; or
- (b) redeem, reduce, cancel or acquire for any consideration any capital of IAG other than capital ranking equally with or in priority to Preference Shares if Preference Shares were issued,

unless:

- (c) four consecutive Interest Payments stated to be payable on RES after the Interest Payment Date of the Interest Payment that has not been paid have been paid in full; or
- (d) an Optional Interest Payment has been paid to all RES Holders equal to the aggregate unpaid amount of any unpaid Interest Payments which were scheduled to be paid in the 12 months prior to the date of payment of the Optional Interest Payment; or
- (e) all RES have been Redeemed, Converted or Exchanged.

3.7 Interest Payment Dates

Subject to this clause 3, Interest Payments (other than Optional Interest Payments) will be payable in arrears on the following dates (each an **Interest Payment Date**):

- (a) each 15 March, 15 June, 15 September and 15 December commencing on 15 March 2005 until the Realisation Date; and
- (b) the Realisation Date.

If an Interest Payment Date is a day which is not a Business Day, then the Interest Payment Date will be the next day which is a Business Day.

4 Redemption, Conversion and Exchange general provisions

4.1 Meanings

- (a) **Redemption** in respect of a RES means the RES is redeemed by the Issuer for the Redemption Amount and the Redemption Amount is paid in cash to the Trustee on trust for the RES Holder.
- (b) **Conversion** in respect of a RES means the RES is redeemed by the Issuer for the Redemption Amount, the Redemption Amount is applied by the Trustee in payment of the Ordinary Share Issue Price, and Ordinary Shares in a number calculated according to clause 7 are issued to the RES Holder by IAG.
- (c) **Exchange** in respect of a RES means the RES is redeemed by the Issuer for the Redemption Amount, the Redemption Amount is applied by the Trustee in payment of the Preference Share Issue Price and the Preference Share is issued to the RES Holder by IAG.

4.2 Winding-Up Event for the Issuer or IAG Portfolio

Subject to these RES Terms, RES are perpetual securities but are automatically Redeemable if a Winding-Up Event occurs in respect of the Issuer or IAG Portfolio. Where a Winding-Up Event occurs in respect of the Issuer or IAG Portfolio, the Issuer must immediately and despite anything in clause 5, 6, 7 or 8, Redeem all RES remaining on issue as at that date.

4.3 Redemption or Conversion by Issuer

The Issuer may Redeem or Convert some or all RES according to clause 5.

4.4 RES Holder Redemption

A RES Holder may request that the Issuer Redeem some or all of their RES according to clause 6 and the Issuer must, subject to IAG's right to require Exchange according to clause 8, Resell, Redeem or Convert those RES according to clause 6.7.

A RES Holder has no right to request Resale or Conversion.

4.5 Exchange by IAG

IAG may Exchange some or all RES according to clause 8.

A RES Holder has no right to request Exchange.

4.6 Effect of notices and inconsistencies

- (a) An Issuer Notice or an Exchange Notice prevails over any RES Holder Redemption Notice in respect of the same RES to the extent of any inconsistency regardless of which notice is given first.
- (b) An Issuer Notice or Exchange Notice is, subject to clauses 4.6(c) and (d), irrevocable and, once given, constitutes a promise by the Issuer (in the case of Resale or Redemption) and by the Issuer and IAG (in the case of Exchange or Conversion) to Resell, Redeem, Convert or Exchange the RES which are the subject of that notice (except where the notice is revoked according to clause 4.6(c) or 4.6 (d)).
- (c) An Issuer Notice given according to clause 6.7 is revoked if IAG gives an Exchange Notice no later than:
 - (i) where clause 6.1(a) applies, 25 Business Days before the Reset Date; and

(ii) where clause 6.1(b) applies, 25

Business Days before the Realisation Date.

(d) Any Exchange Notice which has been given is revoked if the Issuer gives an Issuer Notice according to clause 5.2 before the Preference Share Issue Date.

4.7 Redemption Amount

If RES are to be Redeemed, on the Realisation Date, the Issuer must pay to the Trustee on trust for the RES Holder in respect of each RES which is Redeemed, the Redemption Amount. Subject to clauses 4.8 and 4.9, the Redemption Amount is equal to the Face Value.

4.8 Payment of Redemption Amount subject to Distributable Portfolio Proceeds Amount

Payment of a Redemption Amount (whether on a Redemption, Conversion or Exchange) is subject to the Distributable Portfolio Proceeds Amount at the relevant Realisation Date. If the Redemption Amount exceeds the Distributable Portfolio Proceeds Amount as at the Realisation Date, the Redemption Amount is due and will be paid only to the extent of the Distributable Portfolio Proceeds Amount.

4.9 No rights in respect of amount not paid

If all or any part of the Redemption Amount is not paid on the Realisation Date because of clause 4.8, payment or application of the Distributable Portfolio Proceeds Amount on a Redemption, Conversion or Exchange satisfies all liability in respect of the Redemption Amount, the Issuer is released from any liability to pay the amount not paid on that Realisation Date and the RES Holder has no claim in respect of such non-payment.

4.10 Effect of Redemption, Conversion or Exchange

Upon Redemption, Conversion or Exchange and payment of any Interest Payment due in respect of a RES on the Realisation Date, all other rights conferred, or restrictions imposed, by that RES will no longer have effect.

4.11 RES Holder to become members

Each RES Holder irrevocably:

- (a) agrees that any Redemption Amount due upon a Conversion or Exchange is to be applied in payment of the Ordinary Share Issue Price or Preference Share Issue Price (as the case may be);
- (b) upon a Conversion or Exchange, consents to becoming a member of IAG and agrees to be bound by the constitution of IAG and, in the case of Exchange, the Preference Shares Terms; and
- (c) agrees it is obliged to accept the Ordinary Shares or the Preference Share upon a Conversion or Exchange, notwithstanding anything which might otherwise affect Conversion or Exchange, including:
 - (i) any change in the financial position of IAG since the Issue Date;
 - (ii) any disruption to the market or potential market for the Ordinary Shares or Preference Shares or to capital markets generally;
 - (iii) any breach by any IAG Entity of any Transaction Document;
 - (iv) the quotation of Ordinary Shares or Preference Shares on ASX becomes impossible or unlikely; or
 - (v) the occurrence of a Trigger Event.

4.12 Failure to Convert or Exchange

If on a Realisation Date, Ordinary Shares are not issued or a Preference Share is not issued (as the case may be for Conversion or Exchange) in respect of a RES (including because a Winding Up Event has occurred in respect of IAG), that RES remains on issue until the RES Holder receives the Ordinary Shares or the Preference Share in respect of that RES or the Redemption Amount in cash. This clause 4.12 does not affect the obligation of IAG to issue the Ordinary Shares or the Preference Share.

4.13 Partial Redemption, Conversion or Exchange

If some but not all RES are Redeemed, Converted or Exchanged, the Issuer must in each case, endeavour to treat all RES Holders on an approximately proportionate basis but may discriminate to take account of the effect on marketable parcels and other logistical considerations.

5 Issuer Redemption or Conversion

5.1 Redemption or Conversion by Issuer

The Issuer may elect to Redeem or Convert:

- (a) all or some RES on any Reset Date;
- (b) all or some RES at any time, if a Tax Event or a Regulatory Event has occurred;
- (c) all or some RES at any time, if an Acquisition Event has occurred; or
- (d) all (but not some only) RES at any time, if there are less than one million RES on issue.

5.2 Issuer Notice

To elect to Redeem or Convert according to clause 5.1, the Issuer must give a notice (**Issuer Notice**) according to this clause 5.2. The Issuer Notice must:

- (a) in the case of a Redemption or Conversion according to clause 5.1(a), be given no less than 35 Business Days (but no more than three months) before the Reset Date, and state the Reset Date as the Realisation Date;
- (b) in any other case, state as the Realisation Date, the last Business Day of the month following the month in which the Issuer Notice was given unless the Issuer determines an earlier date having regard to the best interests of RES Holders (collectively) and the relevant event (provided that, in the case of a Conversion, the Realisation Date must be at least 20 Business Days after the date of the Issuer Notice);
- (c) if less than all RES are being Redeemed or Converted, state the proportion of RES to be Redeemed or Converted for each RES Holder;
- (d) state the expected Redemption Amount; and
- (e) state whether the Issuer will Redeem or Convert RES or Redeem some RES and Convert the other RES the subject of the Issuer Notice.

6 RES Holder Redemption

6.1 RES Holder Redemption

A RES Holder may request that the Issuer Redeem some or all of its RES:

- (a) on any Reset Date; or
- (b) at any time, if a Trigger Event occurs.

6.2 Trigger Events

A **Trigger Event** means the occurrence of any of the following events:

- (a) an Interest Payment is not paid in full for any reason (except because of clause 3.3) within 20 Business Days of the relevant Interest Payment Date;
- (b) a Liquidation Event occurs in relation to IAG or a Liquidation Event (other than a Winding-Up Event) occurs in relation to the Issuer or IAG Portfolio;
- (c) Ordinary Shares are suspended from trading on ASX for a period of 20 consecutive Business Days;
- (d) IAG makes an announcement to ASX that it intends to sell all or substantially all of its business, undertaking or assets other than to effect a solvent reconstruction; or
- (e) the Issuer or IAG Portfolio ceases to be, directly or indirectly, a subsidiary of IAG.

6.3 Trigger Event Notice

If a Trigger Event occurs, the Issuer must notify RES Holders of the occurrence of that event by publishing a notice of the Trigger Event in "The Australian" or a daily financial newspaper in Australia (**Trigger Event Notice**) stating:

- (a) the particular Trigger Event; and
 - (b) the Trigger Event Date,
- as soon as practicable after becoming aware of the applicable Trigger Event. Any Trigger Event Notice, once published, is irrevocable.

6.4 RES Holder Redemption Notice

To request Redemption, a RES Holder must give a notice (**RES Holder Redemption Notice**), which must:

- (a) in the case of a Redemption according to clause 6.1(a), be given at least 35 Business Days but no more than 50 Business Days prior to the relevant Reset Date; and
- (b) in the case of a Redemption according to clause 6.1(b), be given no more than 20 Business Days after the date the Trigger Event Notice is published.

6.5 RES Holder Realisation Date

If a RES Holder gives a RES Holder Redemption Notice to the Issuer under clause 6.4, the Realisation Date on which the Redemption or Conversion is to occur is, if the RES Holder Redemption Notice is given according to:

- (a) clause 6.4(a), the Reset Date immediately following the giving of the RES Holder Redemption Notice; and
- (b) clause 6.4(b), the Realisation Date determined by the Issuer and notified to the RES Holder, being a date no later than 60 Business Days and, in the case of Conversion, no earlier than 50 Business Days, after the date the Trigger Event Notice is published.

6.6 RES Holder Redemption Notices are irrevocable

A RES Holder Redemption Notice is irrevocable once given. Once a RES Holder has given a RES Holder Redemption Notice, the RES Holder must not deal with, transfer or dispose of or otherwise encumber the RES the subject of the RES Holder Redemption Notice.

6.7 Issuer Notice as to Redemption or Conversion

If the RES Holder gives a RES Holder Redemption Notice, the Issuer must, unless IAG has given an Exchange Notice according to clause 8, no later than:

- (a) where clause 6.1(a) applies, 25 Business Days before the Reset Date; and
- (b) where clause 6.1(b) applies, 25 Business Days after the Trigger Event Notice is published, give an Issuer Notice in relation to each RES the subject of the RES Holder Redemption Notice which must state:
 - (c) that it will do one or more of the following (in any combination):
 - (i) sell the RES to a third party for an amount such that the net proceeds of sale are at least equal to its Issue Price together with any accrued Interest Payments and remit the net proceeds to the RES Holder on the Realisation Date (**Resale**);

- (ii) Redeem the RES on the Realisation Date; or
- (iii) Convert the RES on the Realisation Date;

- (d) state the Realisation Date according to clause 6.5; and
- (e) state the expected Redemption Amount.

If the Issuer fails to give an Issuer Notice according to this clause 6.7 it will be taken to have given a notice to Redeem the RES on the Realisation Date which is:

- (f) where clause 6.1(a) applies, the Reset Date immediately following the giving of the RES Holder Redemption Notice; and
- (g) where clause 6.1(b) applies, a date which is 60 Business Days after the date the Trigger Event Notice is published.

If the Issuer elects to Resell and RES are not Resold, the RES must be Redeemed.

6.8 RES Holder agreement to Resale

By giving a RES Holder Redemption Notice, each RES Holder is irrevocably taken to offer to sell the RES the subject of the RES Holder Redemption Notice to the relevant third party if the Issuer elects to procure Resale according to clause 6.7.

6.9 Power of attorney

Each RES Holder irrevocably appoints IAG, the Issuer and each of their Authorised Officers (each an **Appointed Person**) severally to be the attorney of the RES Holder and the agent of the RES Holder with power in the name and on behalf of the RES Holder to do all such acts and things including signing all documents or transfers as may in the opinion of the Appointed Person be necessary or desirable to be done in order to record or perfect the transfer of the RES held by the RES Holder when required according to clause 6.7.

7 Conversion actions

7.1 Conversion actions

On the Realisation Date in respect of any RES that are to be Converted:

- (a) the Issuer must give a Realisation Date Notice which must state:
- (i) the Ordinary Share Issue Price being, for each Ordinary Share, the amount which is calculated according to the formula:

$$\text{Ordinary Share Issue Price} = \text{VWAP} \times (1 - \text{RES Conversion Discount})$$

where:

VWAP (expressed as a dollar value) means VWAP during the VWAP Period; and

RES Conversion Discount (expressed as a decimal) means the conversion discount being 0.025 or as changed according to clause 9; and

- (ii) the number of Ordinary Shares to be issued for each RES on that date according to clause 7.2; and
- (b) the relevant RES are Converted.

7.2 Conversion Number

Subject to this clause 7, where IAG must issue Ordinary Shares upon Conversion, the number of Ordinary Shares to be issued for each RES being Converted (**Conversion Number**) is calculated according to the following formula:

$$\text{Conversion Number} = \frac{\text{Redemption Amount}}{\text{VWAP} \times (1 - \text{RES Conversion Discount})}$$

where:

VWAP and **RES Conversion Discount** each has the meaning given in clause 7.1.

7.3 Number of Ordinary Shares

If the total number of Ordinary Shares to be issued to a RES Holder on a Realisation Date in respect of their aggregate holding of RES being Converted includes a fraction of an Ordinary Share, that fraction will be disregarded.

7.4 Adjustments to VWAP

For the purposes of calculating VWAP under clause 7.1:

- (a) where, on some or all of the Business Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and the issue of Ordinary Shares will occur after that date and those Ordinary Shares no longer carry that dividend or other distribution or entitlement, then the VWAP on the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (**Cum Value**) equal to:
 - (i) (in the case of a dividend or other distribution), the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;
 - (ii) (in the case of any other entitlement which is traded on ASX on any of those Business Days), the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Business Days on which those entitlements were traded; or
 - (iii) (in the case of an entitlement not traded on ASX during the VWAP Period), the value of the entitlement as reasonably determined by the IAG Directors;
- (b) where on some or all of the Business Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and Ordinary Shares which are to be issued would be entitled to receive the relevant dividend or other distribution or entitlement, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value; and
- (c) where the Ordinary Shares are reconstructed, consolidated, divided or reclassified into a lesser or greater number of securities during the VWAP Period, the VWAP shall be adjusted by the Directors as they consider appropriate and these RES Terms will be construed accordingly.

Any such adjustment will promptly be notified to RES Holders.

7.5 Ranking of Ordinary Shares

Each Ordinary Share issued on Conversion ranks equally with all other Ordinary Shares.

8 Exchange

8.1 Exchange by IAG

Subject to clause 8.2, IAG may require an Exchange at any time on or before 5.00pm (Sydney time) on the Expiry Date by giving a notice (**Exchange Notice**) to RES Holders according to clause 8.2.

8.2 Conditions to Exchange

Exchange may happen on up to two occasions only provided that, on each occasion:

- (a) the number of Preference Shares to be issued does not exceed the number of RES on issue at the date of the Exchange Notice;
- (b) the number of Preference Shares to be issued by IAG is a minimum of two million and a whole multiple of 10,000; and
- (c) if any RES will remain on issue after the Exchange, the number of RES remaining on issue will not be less than two million.

8.3 Exchange Notice

An Exchange Notice must state:

- (a) the Preference Share Issue Date, which must be no sooner than 10 Business Days and no later than 90 Business Days after the date the Exchange Notice is given;
- (b) the number of Preference Shares to be issued;
- (c) the Preference Share Initial Margin, which will be the RES Margin according to clause 3.1 at the date of the Exchange Notice; and
- (d) the Preference Share Conversion Discount, which will be the RES Conversion Discount according to clause 7.1 at the date of the Exchange Notice.

If a RES Holder Redemption Notice has been given according to clause 6.4 in respect of a RES, an Exchange Notice may not be given in respect of that RES unless the Exchange Notice is given no later than where:

- (e) clause 6.1(a) applies, 25 Business Days before the Reset Date; and
- (f) clause 6.1(b) applies, 25 Business Days before the Realisation Date.

8.4 Exchange actions

On the Preference Share Issue Date in respect of any RES the subject of the Exchange Notice:

- (a) IAG must give a Realisation Date Notice which must state:
 - (i) the Preference Share Issue Price being, for each Preference Share, an amount equal to the Redemption Amount; and
 - (ii) if, since the date of the Exchange Notice, the RES Margin or the RES Conversion Discount has been changed according to clause 9, the Preference Share Initial Margin and the Preference Share Conversion Discount as changed accordingly;
- (b) IAG must complete a set of Preference Share Terms by including the Preference Share Issue Price, Preference Share Issue Date, Preference Share Initial Margin, Preference Share Conversion Discount, and the Bank Bill Rate for the first Dividend Period for the Preference Shares; and
- (c) the relevant RES are Exchanged.

9 Reset provisions

9.1 Reset of distribution provisions

Subject to clause 9.2, the Issuer may on a Reset Date change any or all of:

- (a) the next Reset Date;
- (b) the RES Margin for each succeeding Interest Period until the next Reset Date; and
- (c) the RES Conversion Discount.

These new terms will apply from (and including) the relevant Reset Date until (but not including) the next Reset Date. Any change made by the Issuer under this clause 9.1 must be notified according to clause 9.2 (**Reset Notice**).

9.2 Notification

- (a) For a change made under clause 9.1 to be effective, the Reset Notice must be sent to the RES Holder no later than 50 Business Days before the relevant Reset Date.
- (b) If the Issuer does not send a Reset Notice, the terms applying at the relevant Reset Date will continue. In this case, the next Reset Date will be such that the period to the next Reset Date is five years (in the case of the first Reset Date) or the same as the immediately preceding Reset Date (in any other case) until the relevant Reset Date.

10 Payments and other matters

10.1 Calculation of Interest Payments and Redemption Amounts

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

10.2 Deductions and gross-up

The Issuer may deduct from any payment payable to a RES Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such payment (**Tax**).

If any deduction is required:

- (a) the Issuer must pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring penalty under the applicable law and will, if required by the RES Holder, deliver to the RES Holder the relevant receipt issued by the revenue authority without delay after it is received by the Issuer; and
- (b) the Issuer must pay an additional amount (**Additional Amount**) to the RES Holder so that the RES Holder receives the same amount in respect of that payment as if no such deduction had been made from the payment except that no Additional Amount is payable in relation to any payment in respect of a RES:
 - (i) to, or to a third party on behalf of, a RES Holder who is liable to such Tax in respect of that RES by reason of the RES Holder having some connection with the Commonwealth of Australia or any political subdivision of the Commonwealth of Australia other than the mere holding of that RES or receipt of a payment on that RES;
 - (ii) to, or to a third party on behalf of, a RES Holder who could lawfully avoid (but has not avoided) the deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or similar cause for exemption to any revenue authority in the place where payment under that RES is made;

- (iii) to, or to a third party on behalf of, a RES Holder who is liable to the Taxes in respect of that RES by reason of the RES Holder being an associate of the Issuer within the meaning of section 128F(9) of the Tax Act; or
- (iv) to, or to a third party on behalf of, an Australian resident RES Holder, if that person has not supplied an appropriate tax file number, an Australian Business Number or exemption details.

This obligation in clause 10.2(b) is not subject to clause 3.3 or 4.8.

10.3 No set-off

The RES Holder has no right to set off any amounts owing by it to the Issuer against any claims owing by the Issuer.

10.4 Time limit for claims

A claim against the Issuer for payment according to these RES Terms is void unless made within five years of the due date for payment.

10.5 Manner of payment to RES Holders

An Interest Payment is payable by the Issuer to the RES Holder as provided in this clause 10.5. A Redemption Amount is payable by the Issuer to the Realisation Account. The Trustee will pay from that account moneys as provided in this clause 10.5, subject to the Trust Deed. In either case, moneys payable by the Issuer or the Trustee to a RES Holder may be paid in any manner the Issuer or Trustee (as the case may be) decides, including:

- (a) by any method of direct credit determined by the Issuer or Trustee (as the case may be) to the RES Holder or RES Holders shown on the Register or to such person or place directed by them;
- (b) by cheque sent through the post directed to the physical or postal address of the RES Holder as shown in the Register or, in the case of joint RES Holders, to the physical or postal address notified to the Registrar for receipt of such moneys (and in default of notification, to the physical or postal address shown in the Register as the address of the joint RES Holder first named in that Register); or

- (c) by cheque sent through the post directed to such other physical or postal address as the RES Holder or joint RES Holders in writing direct.

10.6 Unpresented cheques

Cheques issued by the Issuer that are not presented within six months of being issued or such lesser period as determined by the Issuer may be cancelled. Where a cheque which is cancelled was drawn in favour of a RES Holder, the moneys to be held by the Issuer for the RES Holder as a non-interest bearing deposit or paid by the Issuer according to the legislation relating to unclaimed moneys.

10.7 Unsuccessful transfers

Subject to applicable law and the ASX Listing Rules, where the Issuer or Trustee:

- (a) decides that an amount is to be paid to a RES Holder by a method of direct credit and the RES Holder has not given a direction as to where amounts are to be paid by that method; or
- (b) attempts to pay an amount to a RES Holder by direct credit, electronic transfer of funds or any other means and the transfer is unsuccessful; or
- (c) has made reasonable efforts to locate a RES Holder but is unable to do so,

the amount is to be held by the payer for the RES Holder as a non-interest bearing deposit until the RES Holder or any legal personal representative of the RES Holder claims the amount. If moneys or equivalent securities payable to the RES Holder under the RES have not been claimed by the RES Holder or any legal personal representative of the RES Holder for a period of 12 months after first becoming payable, those moneys or equivalent securities shall:

- (d) be paid by the Trustee to the Issuer, if the Trustee has actual possession and control of such moneys or equivalent securities; and
- (e) become the property of the Issuer.

10.8 Payment to joint RES Holders

A payment to any one of joint RES Holders will discharge the Issuer's liability in respect of the payment.

11 Amendment of these RES Terms

11.1 Amendment without consent

Subject to complying with all applicable laws, the Issuer and the Trustee may, by agreement in writing, amend these RES Terms:

- (a) if the Issuer and Trustee are each of the opinion that the amendment is:
 - (i) of a formal, minor or technical nature;
 - (ii) made to cure any ambiguity or correct any manifest error;
 - (iii) expedient for the purpose of enabling RES to be listed for quotation or to retain listing on any stock exchange or to be offered for, or subscription for, sale under the laws for the time being in force in any place and it is otherwise not considered by the Issuer and the Trustee to be materially prejudicial to the interests of RES Holders as a whole;
 - (iv) necessary to comply with the provisions of any statute or the requirements of any statutory authority;
 - (v) to evidence the succession of another person to the Issuer and the assumption by any such successor of the undertakings and obligations of the Issuer under these RES Terms; or
 - (vi) done according to the Issuer's right in clause 7.4(c); or
- (b) generally in any case where such amendment is considered by the Issuer and the Trustee not to be materially prejudicial to the interests of RES Holders as a whole.

11.2 Amendment with consent

Without limiting clause 11.1, the Issuer and the Trustee may amend these RES Terms if the amendment has been approved by a Special Resolution.

11.3 Meanings

In this clause 11, **amend** includes modify, cancel, alter or add to and **amendment** has a corresponding meaning.

12 Notices

12.1 Form

All notices, certificates, consents, approvals, waivers and other communications in connection with RES must be given in writing, signed by or on behalf of the sender and marked for attention as set out or referred to in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

12.2 Delivery

They must be:

- (a) left at the address set out or referred to in the Details; or
- (b) sent by prepaid post (airmail, if appropriate) to the address set out or referred to in the Details; or
- (c) sent by fax to the fax number set out or referred to in the Details; or
- (d) given in any other way permitted by law.

However, if the intended recipient has notified a changed postal address or changed fax number, then the communication must be to that address or number.

12.3 When effective

They take effect from the time they are received unless a later time is specified in them.

12.4 Receipt – postal

If sent by post, they are taken to be received three days after posting (or seven days after posting if sent to or from a place outside Australia).

12.5 Receipt – fax

If sent by fax, they are taken to be received at the time shown in the transmission report as the time that the whole fax was sent.

12.6 Receipt – general

Despite clauses 12.4 and 12.5, if they are received after 5.00pm in the place of receipt or on a day which is not a Business Day, they are taken to be received at 9.00am on the next Business Day.

12.7 Non-receipt of notice by a RES Holder

The non-receipt of a notice by a RES Holder or an accidental omission to give notice to a RES Holder will not invalidate the giving of that notice either in respect of that RES Holder or generally.

13 Substitution of Issuer

13.1 Substitution of Issuer

The Issuer may without the consent of RES Holders, substitute for itself any other IAG Entity (which may be incorporated in any country) as the debtor in respect of RES (**Substituted Issuer**) by giving notice to RES Holders and the Trustee, provided that:

- (a) the Issuer and the Substituted Issuer have entered into all documents which are necessary to give effect to the substitution and in which the Substituted Issuer has undertaken in favour of RES Holders to be bound by these RES Terms and the Trust Deed, as the debtor in respect of the RES in place of the Issuer (or of any previous substitute under this clause 13) and each other Transaction Document to which the Issuer is party;
- (b) the Substituted Issuer and the Issuer have obtained all necessary authorisations, regulatory and governmental approvals and consents for such substitution and for the performance by the Substituted Issuer of its obligations under RES and the documents effecting the substitution and each Transaction Document to which the Issuer is party;
- (c) if applicable, the Substituted Issuer has appointed a process agent as its agent to receive service of process on its behalf in relation to any legal proceedings in connection with RES and each Transaction Document to which the Issuer is party; and
- (d) except where the Trustee is satisfied that the substitution is not materially prejudicial to the interests of RES Holders as a whole, the Trustee has given its consent in writing to the substitution, which consent must not be unreasonably withheld or delayed.

13.2 Substituted Issuer's rights and obligations under documents

Upon any substitution according to clause 13.1, the Substituted Issuer succeeds to, and is substituted for, the Issuer under the RES with the same rights and obligations as if the Substituted Issuer had been named as the Issuer in these RES Terms and the Trust Deed, and the Issuer is released from its obligations under the RES, the RES Terms and the Trust Deed.

13.3 Further substitutions

After a substitution under clause 13.1, the Substituted Issuer may, without the consent of RES Holders or the Trustee, effect a further substitution (including to the Issuer or a previous Substituted Issuer). All the provisions specified in clauses 13.1 and 13.2 will apply (with necessary changes) and references in the RES Terms and the Trust Deed to the Issuer are taken, where the context so requires, to be or include references to any such further Substituted Issuer.

13.4 Notice to RES Holders

The Issuer must notify RES Holders of the particulars of any substitution according to this clause 13 in writing as soon as practicable after the substitution.

14 Quotation and Foreign RES Holders

14.1 Quotation on ASX

The Issuer must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure, at its own expense, quotation of RES on ASX.

14.2 Foreign RES Holders

Where RES held by a Foreign RES Holder are to be Converted or Exchanged, unless IAG is satisfied that the laws of the Foreign RES Holder's country of residence (as shown in the Register) permit the issue of Ordinary Shares or Preference Shares to the Foreign RES Holder (but as to which IAG is not bound to enquire), either unconditionally or after compliance with conditions which IAG in its absolute discretion regards as acceptable and not unduly onerous, the Ordinary Shares or Preference Shares which the Foreign RES Holder is obliged to accept will be issued to a nominee who will sell those Ordinary Shares or Preference Shares and pay a cash amount equal to the net proceeds received, after deducting any applicable brokerage, stamp duty and other taxes and charges, to that Foreign RES Holder.

15 Governing law and jurisdiction

15.1 Governing law

These RES Terms are governed by the law in force in the State of New South Wales, Australia.

15.2 Jurisdiction

The Issuer and each RES Holder submits to the non-exclusive jurisdiction of the courts of the State of New South Wales, Australia for the purpose of any legal proceedings arising out of these RES Terms or the Trust Deed.

16 Interpretation and definitions

16.1 Interpretation

- (a) Unless otherwise specified, a reference to a clause or paragraph is a reference to a clause or paragraph of these RES Terms.
- (b) If a calculation is required under these RES Terms, unless the contrary intention is expressed, the calculation will be rounded to four decimal places.
- (c) Headings and boldings are for convenience only and do not affect the interpretation of these RES Terms.
- (d) The singular includes the plural and vice versa.
- (e) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (f) If an event under these RES Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.
- (g) A reference to dollars A\$, \$ or cents is a reference to the lawful currency of Australia.
- (h) Calculations, elections and determinations made by the Issuer under these RES Terms are binding on RES Holders in the absence of manifest error.
- (i) The terms 'ASTC operating rules', 'proper ASTC transfer', 'takeover bid', 'related body corporate', 'relevant interest', 'scheme of arrangement' and 'subsidiary', when used in these RES Terms have the meaning given in the Corporations Act.
- (j) A reference to a party to an agreement includes a reference to a replacement or substitute of the party according to that agreement.
- (k) A reference to an agreement or deed includes a reference to that agreement or deed as amended or restated from time to time.

16.2 Definitions for RES Terms

The following expressions have the following meanings:

Acquisition Event means:

- (a) a takeover bid is made to acquire all or some of the Ordinary Shares and the offer is, or becomes, unconditional and:
 - (i) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or
 - (ii) the IAG Directors issue a statement recommending acceptance of the offer; or
- (b) a court approves a scheme of arrangement which, when implemented, will result in a person having a relevant interest in more than 50% of the Ordinary Shares.

ADI means an authorised deposit-taking institution according to the Banking Act 1959 (CwIth).

APRA means the Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of IAG or the Group.

ASTC means ASX Settlement and Transfer Corporation Pty Limited (ABN 49 008 504 532).

ASX means Australian Stock Exchange Limited (ABN 98 008 624 691).

ASX Listing Rules means the listing rules of ASX with any modifications or waivers in their application to the Issuer or IAG which ASX may grant.

ASX Market Rules means the market rules of ASX.

Authorised Officer means a person appointed by the party to act as an authorised officer for the purposes of these RES Terms.

Bank Bill Rate has the meaning given in clause 3.1.

Bookbuild means the process conducted by IAG or its agents prior to the opening of the Offer whereby certain investors and brokers lodge bids for RES and, on the basis of those bids, IAG determines the RES Initial Margin and announces its determination prior to the opening of the Offer.

Business Day has the meaning given in the ASX Listing Rules.

Cash means cash (including the credit balances of the Custodian Bank Account and overnight or 24 hour call deposits with ADIs with a short term credit rating of at least 'A-1' by S&P).

Conversion has the meaning given in clause 4.1(b) and **Convert** and **Convertible** have corresponding meanings.

Corporations Act means the Corporations Act 2001 (CwIth).

Custodian means the custodian of the Portfolio appointed according to the Portfolio Management Agreement.

Custodian Bank Account means the bank account maintained by the Custodian according to the Portfolio Management Agreement.

Details means the section of the Trust Deed headed "Details".

Directors means some or all of the directors of the Issuer acting as a board.

Distributable Portfolio Income Amount means, with respect to a RES and an Interest Period, the Net Portfolio Income for that Interest Period divided by the number of RES on issue at the end of that Interest Period.

Distributable Portfolio Proceeds Amount means, with respect to a RES and a Realisation Date, the Net Portfolio Proceeds divided by the number of RES then being Redeemed, Converted or Exchanged.

Eligible Security means a debt security which complies with clause 1 of schedule 2 of the Portfolio Management Agreement.

Exchange has the meaning given in clause 4.1(c) and **Exchangeable** and **Exchanged** have corresponding meanings.

Exchange Notice has the meaning given in clause 8.1.

Expiry Date means the first of the following to occur:

- (a) all RES have been redeemed according to these RES Terms;
- (b) the Portfolio Principal Balance is zero; or
- (c) a Winding-Up Event has occurred in respect of IAG.

Face Value has the meaning given in clause 1.2.

16.2 Definitions for RES Terms (continued)

Foreign RES Holder means a RES Holder whose address in the Register is a place outside Australia.

Franking Rate (expressed as a decimal) means the franking percentage (within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that Part) applicable to the franking account of IAG at the relevant Interest Payment Date.

Group means IAG and its controlled entities.

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

IAG Directors means some or all of the directors of IAG acting as a board.

IAG Entity means IAG and each of its related bodies corporate.

IAG Portfolio means IAG Portfolio Limited (ABN 38 111 769 843).

Interest Payment has the meaning given in clause 3.1.

Interest Payment Date has the meaning given in clause 3.7.

Interest Period means in respect of:

- (a) the first Interest Period, the period from (and including) the Issue Date until (but not including) the first Interest Payment Date; and
- (b) each subsequent Interest Period, the period from (and including) the preceding Interest Payment Date until (but not including) the next Interest Payment Date.

Interest Rate has the meaning given in clause 3.1.

Issue Date means the date on which RES are issued.

Issue Price has the meaning given in clause 1.2.

Issuer means IAG Finance (New Zealand) Limited (ABN 97 111 268 243), through its New Zealand branch.

Issuer Notice means a notice given by, or taken to be given by, the Issuer according to clause 5.2 or 6.7(b).

Liquidation Event means in respect of a party:

- (a) the party ceases or suspends the conduct of all of its business;
- (b) a proceeding is commenced by the party or a person that controls the party, for an order that the party be dissolved, wound up or liquidated or for the appointment of a provisional liquidator, liquidator, receiver, receiver and manager,

administrator, controller or similar official in respect of the party or all or substantially all of its property;

- (c) a proceeding for an order of a kind described in paragraph (b) (other than a proceeding which is frivolous or vexatious) is commenced by any other person and is not dismissed within 30 Business Days of filing;
- (d) a provisional liquidator, liquidator, receiver, receiver and manager, administrator, controller or similar official is appointed in respect of the party or all or substantially all of its property and such appointment is not revoked or set aside within 30 Business Days of such appointment; or
- (e) the party executes a deed of company arrangement or enters into an arrangement with its creditors.

Meeting Provisions means the provisions which regulate the holding and conduct of meetings of the RES Holders according to the Trust Deed.

Net Portfolio Income means the net cash income received on or in respect of the Portfolio in an Interest Period determined by IAG Portfolio as follows:

- (a) all interest and other distributions on the assets in the Portfolio;
 - (b) any net realised gains on the disposal of any assets in the Portfolio;
 - (c) any net realised gains on the maturity of any assets in the Portfolio;
 - (d) any fees received by the Issuer referable to the Portfolio or any use of the Portfolio;
 - (e) any amounts recovered in respect of a Write-Off; and
 - (f) any amounts received from an IAG Entity for the credit of the Portfolio,
- less:
- (g) any net realised losses on the disposal of any assets in the Portfolio;
 - (h) any net realised losses on the maturity of any assets in the Portfolio;
 - (i) any expenses reasonably attributable to the amounts described in paragraphs (a) to (e) above (but not any income tax in respect of those amounts) and not otherwise taken into account; and
 - (j) the aggregate of:
 - (i) any liabilities, costs, charges and expenses incurred in relation to RES and payable to the Trustee, Custodian or Registrar according to any relevant Transaction Document; and

16.2 Definitions for RES Terms (continued)

- (ii) any remuneration due and payable to a receiver or receiver and manager appointed by the Trustee in respect of the property of the Issuer or IAG Portfolio, in each case to the extent unpaid.

Net Portfolio Proceeds means, with respect to a Realisation Date, the Realisation Amount but excluding:

- (a) any amount attributable to the Net Portfolio Income for the period ending on the relevant Realisation Date; and
- (b) the aggregate of:
 - (i) any liabilities, costs, charges and expenses incurred in relation to RES and payable to the Trustee or the Custodian; and
 - (ii) remuneration due and payable to a receiver or receiver and manager appointed by the Trustee in respect of the property of the Issuer or IAG Portfolio, in each case to the extent (after the application of any Net Portfolio Income) unpaid.

Offer means the invitation made by the Issuer according to the prospectus issued in respect of RES dated 29 November 2004.

Optional Interest Payment has the meaning given in clause 3.5.

Ordinary Share means a fully paid ordinary share in the capital of IAG.

Ordinary Share Issue Price has the meaning given in clause 7.1.

Portfolio means the aggregate assets held by the Custodian for IAG Portfolio and managed by the Portfolio Manager according to the Portfolio Management Agreement.

Portfolio Management Agreement means the portfolio management agreement executed by the Issuer, IAG, IAG Portfolio, the Portfolio Manager, the Trustee and the Custodian after the date of the Trust Deed.

Portfolio Manager means IAG Asset Management Limited (ABN 94 054 552 046) appointed as portfolio manager according to the Portfolio Management Agreement.

Portfolio Principal Balance means, at any time, the aggregate of the purchase prices of Portfolio Securities, and the aggregate amount of Cash at that time.

Portfolio Security means a debt obligation included in the Portfolio.

Preference Share means a fully paid preference share in the capital of IAG issued on Exchange according to the Preference Share Terms.

Preference Share Conversion Discount means the conversion discount for Preference Shares determined according to clauses 8.3(d) and 8.4(a)(ii).

Preference Share Initial Margin means the margin according to the Preference Share Terms.

Preference Share Issue Date means the date the Preference Shares are issued according to clause 8.3.

Preference Share Issue Price has the meaning given in clause 8.4(a)(i).

Preference Share Terms means the terms of issue of the Preference Shares, incorporated as schedule 2 to the Trust Deed.

Pricing Supplement means an instrument executed by the Issuer substantially in the form of schedule 4 to the Trust Deed stating the RES Initial Margin and the aggregate number of RES to be issued.

Realisation Account means the account in the name of the Trustee with an ADI into which only the Realisation Amount in respect of the Portfolio (or a Relevant Part) must be credited.

Realisation Amount means, with respect to a Realisation Date, the gross proceeds actually received on a realisation of the Portfolio or, where not all RES are to be Redeemed, Converted or Exchanged, a Relevant Part including any amount received from IAG under clause 6.1(a) of the Portfolio Management Agreement, less all costs and expenses incurred in connection with that realisation (but not any income tax in respect of that amount).

Realisation Date means:

- (a) in the case of a Redemption, the date on which Redemption is to occur according to clause 4.2, 5.2 or 6.5;
- (b) in the case of a Conversion, the date on which Conversion is to occur according to clause 5.2 or 6.5; and
- (c) in the case of Exchange, the Preference Share Issue Date.

16.2 Definitions for RES Terms (continued)

Realisation Date Notice means a notice given by the Issuer on a Realisation Date under clause 7.1 or 8.4.

Record Date means for payment of:

- (a) an Interest Payment:
 - (i) the date which is 11 Business Days before the Interest Payment Date for that Interest Payment; or
 - (ii) in the case of the first Interest Payment Date, if the Issue Date is less than 11 Business Days before the first Interest Payment Date, the Issue Date; and
 - (b) an Optional Interest Payment, the date prior to the payment of the Optional Interest Payment that is determined by the Issuer,
- or such other date as may be required by ASX.

Redemption has the meaning given in clause 4.1(a) and **Redeem** and **Redeemed** have corresponding meanings.

Redemption Amount means the amount payable to redeem RES on a Conversion, Exchange or Redemption according to clauses 4.1, 4.2, 4.7, 4.8 and 4.9.

Register means the register of RES maintained by the Registrar.

Registrar means Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registrar that maintains the Register.

Regulatory Event means:

- (a) the receipt by the Issuer or IAG of an opinion from a reputable legal counsel that, as a result of any amendment to, clarification of, or change (including any announcement of a prospective change) in, any law or regulation affecting securities laws of Australia or New Zealand or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations which amendment, clarification or change is effective, or pronouncement, action or decision is announced, on or after the Issue Date, additional requirements would be imposed on the Issuer or IAG which the Issuer or IAG determines, at its absolute discretion, to be unacceptable;
- (b) the determination by the IAG Directors that IAG is not or will not be entitled to treat all Preference Shares, when and if issued, as Tier 1 Capital; or

- (c) the determination by the IAG Directors that IAG is not or will not be entitled according to applicable accounting standards to treat the Portfolio and its liability (on a consolidated basis) in respect of RES as off-set so that only the net amount (if any) is reported in its consolidated balance sheet.

Relevant Part means the part of the Portfolio determined by the Portfolio Manager comprising assets, the fair market value of which bears to the fair market value of the Portfolio as a whole, the same proportion as the number of RES to be Redeemed, Converted or Exchanged bears to the total number of RES on issue immediately prior to the Redemption, Conversion or Exchange.

RES means perpetual reset exchangeable securities as described in clause 1.1 and issued by the Issuer according to these RES Terms.

RES Conversion Discount has the meaning given in clause 7.1.

RES Holder means the person whose name is registered in the Register as the holder of a RES.

RES Holder Redemption Notice has the meaning given in clause 6.4.

RES Initial Margin has the meaning given in clause 3.1.

RES Margin has the meaning given in clause 3.1.

RES Terms means these terms of issue of RES.

Resale has the meaning given in clause 6.7 and **Resell** and **Resold** have corresponding meanings.

Reset Date means, for the first Reset Date, 15 March 2010 and each subsequent Reset Date will occur on the fifth anniversary of the previous Reset Date unless changed according to clause 9.

Reset Notice has the meaning given in clause 9.1.

Special Resolution means a resolution passed at a meeting of RES Holders or by postal ballot (where allowed under the Meeting Provisions of the Trust Deed) by a majority of not less than 75% of the votes cast on it.

S&P means Standard & Poor's Rating Services.

Substituted Issuer has the meaning given in clause 13.

16.2 Definitions for RES Terms (continued)

Tax Act means:

- (a) the Income Tax Assessment Act 1936 (Cwlth) or the Income Tax Assessment Act 1997 (Cwlth) as the case may be, and a reference to any section of the Income Tax Assessment Act 1936 (Cwlth) includes a reference to that section as rewritten in the Income Tax Assessment Act 1997 (Cwlth); and
- (b) any other Act setting the rate of income tax payable and any regulation promulgated under it.

Tax Event means the receipt by the Issuer or IAG of an opinion from a reputable legal counsel or other tax adviser in Australia or New Zealand or any other jurisdiction from which a payment is made on RES (each a **Relevant Jurisdiction**), experienced in such matters, to the effect that, as a result of:

- (a) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties or any regulations of a Relevant Jurisdiction or any political subdivision or taxing authority of a Relevant Jurisdiction affecting taxation;
- (b) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (**Administrative Action**); or
- (c) any amendment to, clarification of, or change in an Administrative Action that provides for a position that differs from the current generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known, which amendment, clarification, change or Administrative Action is effective or such pronouncement or decision is announced on or after the Issue Date, there is more than an insubstantial risk that IAG or the Issuer would be exposed to more than a de minimis increase in its costs (having regard to any tax deductions available to any IAG Entity and the ability of IAG to frank Interest Payments).

Tier 1 Capital means the core capital of IAG (on a solo basis if relevant) or the Group (on a consolidated basis) in each case, as defined by APRA.

Transaction Documents means:

- (a) the Trust Deed (incorporating as schedule 1 these RES Terms and as schedule 2 the Preference Share Terms);
- (b) the Portfolio Management Agreement; and
- (c) any other document entered into in connection with any of them.

Trigger Event has the meaning given in clause 6.2.

Trigger Event Date means the date a Trigger Event occurs.

Trigger Event Notice has the meaning given in clause 6.3.

Trust Deed means the Trust Deed executed by the Issuer, IAG, IAG Portfolio and the Trustee on or around 20 November 2004.

Trustee means Permanent Trustee Company Limited (ABN 21 000 000 993) in its capacity as trustee for RES Holders according to the Trust Deed.

VWAP means, subject to any adjustments under clause 7.4, the average of the daily volume weighted average sale prices (rounded to the nearest full cent) of Ordinary Shares sold on ASX during the relevant period or on the relevant days but does not include any transaction defined in the ASX Market Rules as “special” crossings prior to the commencement of normal trading, crossings during the after hours adjust phase, crossings during the closing phrase, overnight crossings, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

VWAP Period means the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding the relevant Realisation Date.

Winding-Up Event means where an order is made, or an effective resolution is passed, for the winding up of a party which is not revoked or set aside within 30 Business Days of such order being made or resolution passed.

Write-Off means a Portfolio Security which has been deemed to have been sold for nil consideration and no longer to be a Portfolio Security on account of it not having been sold or disposed of within 30 days of it ceasing to be an Eligible Security.

Appendix C Preference Share Terms

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|-------------------------------------|--|
| 1. Preference Shares | 6. Notice and reports |
| 2. Dividends | 7. Quotation on ASX |
| 3. Redemption or Conversion | 8. Amendment of these Preference Share Terms |
| 4. Preference Shares general rights | 9. Interpretation and definitions |
| 5. Voting rights | |

1 Preference Shares

- (a) Preference Shares are fully paid preference shares in the capital of Insurance Australia Group Limited (**IAG**). They are issued, and may be Redeemed or Converted, according to these Preference Share Terms.
- (b) The issue price of each Preference Share (**Preference Share Issue Price**) is *[state amount which is the Preference Share Issue Price being an amount equal to the Redemption Amount as defined in the RES Terms]*.
- (c) The Preference Share Issue Date is *[state date which is the Realisation Date as defined in the RES Terms]*.

2 Dividends

2.1 Dividends

Subject to these Preference Share Terms, each Preference Share entitles the Preference Shareholder on a Record Date to receive on the relevant Dividend Payment Date a dividend (**Dividend**) calculated according to the following formula:

$$\text{Dividend} = \frac{\text{Dividend Rate} \times \text{Preference Share Issue Price} \times \text{N}}{365}$$

where:

Dividend Rate (expressed as a percentage per annum) is calculated according to the following formula:

$$\text{Dividend Rate} = (\text{Bank Bill Rate} + \text{Preference Share Margin}) \times (1 - T)$$

where:

Bank Bill Rate (expressed as a percentage per annum) means:

- (a) for the first Dividend Period, *[insert the percentage per annum which is applicable under the RES Terms being:*
- (i) *if the Preference Share Issue Date is 15 March, 15 June, 15 September or 15 December (or the Business Day following that day if that day is not a Business Day), the Bank Bill Rate as determined according to clause 2.1(b) on that date; or*
 - (ii) *if the Preference Share Issue Date is any other date, the Bank Bill Rate applicable to RES immediately prior to the issue of the Preference Shares]; and*
- (b) for any other Dividend Period, the average mid-rate for bills of a term of 90 days which average rate is displayed on Reuters page BBSW (or any page which replaces that page) on the first Business Day of the Dividend Period or if there is a manifest error in the calculation of that average rate or that average rate is not displayed by 10.30am (Sydney 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:
- (i) the rates otherwise bid and offered for bills of a term of 90 days or for funds of that tenor displayed on Reuters page BBSW (or any page which replaces that page) at that time on that date; or
 - (ii) if bid and offer rates for bills of a term of 90 days are not otherwise available, the rates otherwise bid and offered for funds of that tenor at or around that time on that date;

Preference Share Margin (expressed as a percentage per annum) means in respect of the period:

- (a) to (but not including) the Step-Up Date, *[insert RES Margin immediately prior to the issue of the Preference Shares]* (**Preference Share Initial Margin**); and
- (b) from (and including) the Step-Up Date, the Preference Share Initial Margin plus 1.00% per annum; and

T (expressed as a decimal) means the Australian corporate tax rate applicable to the franking account of IAG at the relevant Dividend Payment Date; and

N means in respect of:

- (a) the first Dividend Payment Date, the number of days from (and including) the Preference Share Issue Date until (but not including) the first Dividend Payment Date; and
- (b) each subsequent Dividend Payment Date, the number of days from (and including) the preceding Dividend Payment Date until (but not including) the relevant Dividend Payment Date.

2.2 Franking adjustments

If any Dividend is not franked to 100% under Part 3-6 of the Tax Act (or any provisions that revise or replace that Part), the Dividend will be calculated according to the following formula:

$$\text{Dividend} = \frac{\mathbf{D}}{1 - [\mathbf{T} \times (1 - \mathbf{F})]}$$

where:

- D** means the Dividend calculated under clause 2.1;
- T** has the meaning given in clause 2.1; and
- F** means the applicable Franking Rate.

2.3 Payment of a Dividend

Each Dividend (including an Optional Dividend) is subject to:

- (a) the IAG Directors, at their absolute discretion, determining the Dividend to be payable;
- (b) IAG having profits available for the payment of the Dividend;

- (c) such payment of the Dividend not resulting in the Total Capital Adequacy Ratio or the Tier 1 Capital Ratio of the Group (on a consolidated basis) not complying with APRA's then current capital adequacy guidelines as they are applied to the Group at the time;
- (d) unless APRA indicates that it has no objection, the amount of the Dividend not exceeding the profits after tax of the Group (on a consolidated basis) for the immediately preceding two half yearly financial periods for which results have been publicly announced by IAG (or any other amount as determined by APRA in its discretion to be applicable for the purpose of the Group's Tier 1 Capital instruments) less the aggregate amount of dividends or other distributions paid or payable by a member of the Group on its Tier 1 Capital instruments (but not including a dividend or distribution paid or payable to a member of the Group by another member of the Group) in the 12 month period up to and including the Dividend Payment Date; and
- (e) APRA not otherwise objecting to the payment of the Dividend.

The IAG Directors, at their absolute discretion, may determine an Optional Dividend to be payable on any date, subject to this clause 2.3.

2.4 Dividends are non-cumulative

Dividends are non-cumulative. If all or any part of a Dividend (including an Optional Dividend) is not paid because of clause 2.3, IAG has no liability to pay the unpaid amount of the Dividend and, notwithstanding the IAG Directors' discretion to pay an Optional Dividend under clause 2.3, Preference Shareholders have no claim or entitlement in respect of such non-payment.

2.5 Dividend Payment Dates

Subject to this clause 2, Dividends (other than Optional Dividends) will be payable in arrears on the following dates (each a **Dividend Payment Date**):

- (a) each 15 March, 15 June, 15 September or 15 December occurring after the Preference Share Issue Date until the Preference Share Exchange Date; and
- (b) the Preference Share Exchange Date.

If a Dividend Payment Date is a day which is not a Business Day, then the Dividend Payment Date will be the next day which is a Business Day.

2.6 Record Dates

A Dividend is only payable on a Dividend Payment Date to those persons registered as Preference Shareholders on the Record Date for that Dividend.

An Optional Dividend is only payable on the date of payment determined by the IAG Directors to those persons registered as Preference Shareholders on the Record Date for that Optional Dividend.

2.7 Deductions

IAG may deduct from any Dividend payable the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. If any such deduction has been made and the amount of the deduction accounted for by IAG to the relevant revenue authority and the balance of the Dividend payable has been paid to the relevant Preference Shareholder, then the full amount payable to such Preference Shareholder shall be deemed to have been duly paid and satisfied by IAG.

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

2.8 Restrictions in the case of non-payment

If:

- (a) for any reason a Dividend has not been paid in full within 20 Business Days after the relevant Dividend Payment Date; or
- (b) an Interest Payment scheduled to be paid on a RES that has been exchanged for a Preference Share was not paid in full within 20 Business Days of the relevant Interest Payment Date because of clause 3.3(b) of the RES Terms and remains unpaid,

IAG must not, without approval of a Special Resolution:

- (c) declare or pay a dividend or make any distribution on any capital over which Preference Shares rank in priority for participation in profits; or
- (d) redeem, reduce, cancel or acquire for any consideration any capital of IAG other than Preference Shares or capital ranking equally with or in priority to Preference Shares,

unless:

- (e) four consecutive Dividends stated to be payable on Preference Shares after the Dividend Payment Date of the Dividend that has not been paid have been paid in full; or
- (f) with the prior approval of APRA (if approval is then required), an optional dividend (**Optional Dividend**) has been paid to Preference Shareholders equal to the aggregate unpaid amount of any unpaid Dividends and Interest Payments which were scheduled to be paid in the 12 months prior to the date of payment of the Optional Dividend; or
- (g) all Preference Shares have been Redeemed or Converted.

3 Redemption or Conversion

3.1 Redemption or Conversion

- (a) **Redemption** means to redeem, buy back (other than by an on-market buy-back) or reduce capital in connection with Preference Shares (or any combination of these) for an amount of cash equal to the Preference Share Issue Price according to clause 3.6; and
- (b) **Conversion** means to convert Preference Shares to a number of Ordinary Shares equivalent in value to the Preference Share Issue Price according to clause 3.7.

3.2 Redemption or Conversion by Preference Shareholders

Preference Shareholders have no right to seek or initiate Redemption or Conversion.

3.3 Redemption or Conversion by IAG

IAG may require Redemption or Conversion by giving a notice to Preference Shareholders (**Preference Share Exchange Notice**):

- (a) at any time and in respect of all or some Preference Shares, if a Regulatory Event or Tax Event occurs;
- (b) at any time and in respect of all (but not some only) Preference Shares, if the number of Preference Shares on issue is less than one million;
- (c) no later than 35 Business Days after IAG has announced that an Acquisition Event has occurred according to clause 3.10, in respect of all (but not some only) Preference Shares; or

- (d) at least 35 Business Days (but not more than three months) before any Dividend Payment Date from (and including) the Step-Up Date, in respect of all or some Preference Shares.

3.4 Preference Share Exchange Notices

- (a) A Preference Share Exchange Notice given by IAG under clause 3.3 is irrevocable.
- (b) If IAG gives a Preference Share Exchange Notice under clause 3.3, it must elect and specify which of the following it intends to do in respect of each Preference Share which is the subject of the Preference Share Exchange Notice:
 - (i) Redeem according to clause 3.6; or
 - (ii) Convert according to clause 3.7.
- (c) A Preference Share Exchange Notice may specify that some Preference Shares which are the subject of the Preference Share Exchange Notice will be Redeemed and that some will be Converted.
- (d) A Preference Share Exchange Notice must:
 - (i) state the date on which the Redemption or Conversion is to occur (**Preference Share Exchange Date**) which, in the case of a Preference Share Exchange Notice given under:
 - (A) clause 3.3(a), 3.3(b) or 3.3(c), will be the last Business Day of the month following the month in which the Preference Share Exchange Notice was given by IAG unless IAG determines an earlier Preference Share Exchange Date having regard to the best interests of Preference Shareholders (collectively) and the relevant event; and
 - (B) clause 3.3(d), will be the Dividend Payment Date immediately following the date the Preference Share Exchange Notice was given by IAG;
 - (ii) if the Preference Share Exchange Notice provides that Preference Shares are to be Redeemed, state whether the Preference Share Issue Price is payable by way of redemption, buy-back or reduction of capital or any combination of these; and
 - (iii) if less than all Preference Shares are being Redeemed or Converted, state the number of Preference Shares in each Preference Shareholder's holding that are to be Redeemed or Converted.

3.5 Partial Redemption or Conversion

- (a) IAG cannot give a Preference Share Exchange Notice in respect of only some Preference Shares under clause 3.3 if, as at the date of the Preference Share Exchange Notice, the Redemption or Conversion would result in the number of Preference Shares on issue being less than one million.
- (b) If some but not all Preference Shares are Redeemed or Converted, IAG must endeavour to treat Preference Shareholders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels and other logistical considerations.

3.6 Redemption

Subject to APRA's approval (if approval is then required), if IAG elects to Redeem the following provisions apply:

- (a) IAG may Redeem the Preference Shares specified in the Preference Share Exchange Notice by payment of the Preference Share Issue Price to the Preference Shareholder on the relevant Preference Share Exchange Date;
- (b) upon payment of the Preference Share Issue Price to the Preference Shareholder, all other rights conferred, or restrictions imposed, by the Preference Shares held by that Preference Shareholder under these Preference Share Terms will no longer have effect;
- (c) if the Redemption involves a buy-back of Preference Shares, each Preference Shareholder agrees to accept the buy-back offer for their Preference Shares to which the Preference Share Exchange Notice relates and will be deemed to have sold those Preference Shares to IAG on the Preference Share Exchange Date; and
- (d) if the Redemption involves a reduction of capital with respect to Preference Shares and under applicable law Preference Shareholders are entitled to vote on a resolution to approve that reduction of capital, each Preference Shareholder agrees to vote in favour of that resolution.

3.7 Conversion

If IAG elects to Convert, the following provisions apply:

- (a) each Preference Share that is being Converted will Convert into one Ordinary Share on the Preference Share Exchange Date;

- (b) each Preference Shareholder will be allotted, for no consideration, an additional number of Ordinary Shares for each Preference Share that is being Converted on the Preference Share Exchange Date equal to **one less than** the Conversion Number, where the Conversion Number is an amount calculated according to the following formula:

$$\text{Conversion Number} = \frac{\text{Preference Share Issue Price}}{\text{VWAP} \times (1 - \text{Preference Share Conversion Discount})}$$

where:

VWAP (expressed as a dollar value) means the VWAP during the VWAP Period; and

Preference Share Conversion Discount (expressed as a decimal) means a conversion discount of *[insert decimal, being 0.025 or such other decimal as changed according to clause 9 of the RES Terms]*;

- (c) if the total number of additional Ordinary Shares to be allotted to a Preference Shareholder in respect of their aggregate holding of Preference Shares upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded;
- (d) a Preference Share, upon Conversion, confers all of the rights attaching to one Ordinary Share but these rights do not take effect until 5.00pm (Sydney time) on the Preference Share Exchange Date. At that time:
- (i) all other rights conferred or restrictions imposed on that Preference Share under these Preference Share Terms will no longer have effect (except for rights relating to a Dividend which has been determined to be payable but has not been paid on or before the Preference Share Exchange Date which will continue); and
 - (ii) the Ordinary Share resulting from a Conversion will rank equally with all other Ordinary Shares.
- Conversion does not constitute a redemption, buy-back, cancellation or termination of a Preference Share or an issue, allotment or creation of a new Ordinary Share (other than the additional Ordinary Shares allotted under clause 3.7(b)); and
- (e) for the purposes of calculating VWAP under clause 3.7(b):

- (i) where, on some or all of the Business Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and Preference Shares will Convert into Ordinary Shares after the date those Ordinary Shares no longer carry that dividend or any other distribution or entitlement, then the VWAP on the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (**Cum Value**) equal to:
 - (A) (in case of a dividend or other distribution), the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;
 - (B) (in the case of any other entitlement which is traded on ASX on any of those Business Days), the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Business Days on which those entitlements were traded; or
 - (C) (in the case of any other entitlement not traded on ASX during the VWAP Period), the value of the entitlement as reasonably determined by the IAG Directors; and
- (ii) where, on some or all of the Business Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and Preference Shares will Convert into Ordinary Shares which would be entitled to receive the relevant dividend or other distribution or entitlement, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value; and
- (iii) where the Ordinary Shares are reconstructed, consolidated, divided or reclassified into a lesser or greater number of securities during the VWAP Period, the VWAP shall be adjusted by the IAG Directors as they consider appropriate. Any adjustment made by the IAG Directors will constitute an

alteration to these Preference Share Terms and will be binding on all Preference Shareholders and these Preference Share Terms will be construed accordingly. Any such adjustment will promptly be notified to all Preference Shareholders.

3.8 Power of attorney

Each Preference Shareholder appoints each of IAG, its officers and any liquidator or administrator of IAG (each an **Attorney**) severally to be the attorney of the Preference Shareholder with power in the name and on behalf of the Preference Shareholder to sign all documents and transfers and do any other thing as may in the Attorney's opinion be necessary or desirable to be done in order for the Preference Shareholder to observe or perform the Preference Shareholder's obligations under these Preference Share Terms including, but not limited to, accepting any buy-back offer or exercising voting power in relation to any consent or approval required for Redemption or Conversion.

The power of attorney given in this clause 3.8 is given for valuable consideration and to secure the performance by the Preference Shareholder of the Preference Shareholder's obligations under these Preference Share Terms and is irrevocable.

3.9 On-market buy-backs

Subject to APRA's approval (if approval is then required), IAG may buy back Preference Shares at any time and at any price by an on-market buy-back.

3.10 Notice of Acquisition Event

IAG must notify Preference Shareholders of the occurrence of an Acquisition Event by announcement to ASX as soon as practicable after becoming aware of that event.

4 Preference Shares general rights

4.1 Ranking

Preference Shares rank equally among themselves and with RPS1 and RPS2 in all respects and are subordinated to any depositors and creditors of IAG. The issue of any other preference shares or the conversion of any existing shares into preference shares which rank in priority to Preference Shares in respect of dividends or return of capital on a winding-up constitutes an alteration of the rights attached to Preference Shares and must not occur without the approval of a Special Resolution.

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

4.2 Preferential dividend

Preference Shares rank in priority to Ordinary Shares for the payment of dividends.

4.3 Calculations of payments

All calculations of payments will be rounded to four decimal places. For the purposes of making any payment in respect of a Preference Shareholder's aggregate holding of Preference Shares, any fraction of a cent will be disregarded.

4.4 No set-off

Any amount due to a Preference Shareholder in respect of Preference Shares may not be set off against any claims by IAG on the Preference Shareholder.

4.5 Return of capital

If there is a return of capital on a winding-up of IAG, Preference Shareholders will be entitled to receive out of the assets of IAG available for distribution to Preference Shareholders, in respect of each Preference Share held, an amount of cash (**Liquidation Sum**) equal to the sum of:

- (a) the amount of any Dividend (including any Optional Dividend) determined to be paid but unpaid; and
- (b) the Preference Share Issue Price,

before any return of capital is made to Ordinary Shareholders or any other class of shares ranking behind Preference Shares.

4.6 Shortfall on winding-up

If, upon a return of capital on a winding-up of IAG, there are insufficient funds to pay in full the Liquidation Sum and the amounts payable in respect of any other shares in IAG ranking equally with Preference Shares on a winding up of IAG, Preference Shareholders and the holders of any such other shares will share in any distribution of assets of IAG in proportion to the amounts to which they are entitled respectively.

4.7 No participation in surplus assets

Preference Shares do not confer on their Preference Shareholders any further right to participate in the surplus assets of IAG on a winding up beyond payment of the Liquidation Sum.

4.8 Takeover bids and schemes of arrangement

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

4.9 No other rights

Preference Shares do not confer on Preference Shareholders any right to participate in profits or property of IAG except as set out in these Preference Share Terms.

Preference Shares do not confer on Preference Shareholders any right to subscribe for new securities in IAG or to participate in any bonus issues of shares in IAG's capital.

5 Voting rights

Preference Shareholders will not be entitled to vote at any general meeting of IAG except in the following circumstances:

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

Each Preference Shareholder who has a right to vote on a resolution is entitled to the number of votes specified in Article 11.23 of IAG's constitution (or any provision or provisions that revise or replace that Article).

6 Notice and reports

Each Preference Shareholder is entitled to receive notice of any general meeting of IAG and a copy of every circular and like document sent out by IAG to Ordinary Shareholders and to attend and speak at general meetings of IAG.

7 Quotation on ASX

IAG must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure, at its own expense, quotation of Preference Shares on ASX.

8 Amendment of these Preference Share Terms

8.1 Amendment without consent

Subject to complying with all applicable laws and with APRA's prior approval (if approval is then required), IAG may amend these Preference Share Terms:

- (a) if IAG is of the opinion that the amendment is:
 - (i) of a formal, minor or technical nature;
 - (ii) made to cure any ambiguity or correct any manifest error;
 - (iii) expedient for the purpose of enabling the Preference Shares to be listed for quotation or to retain listing on any stock exchange or to be offered for, or subscription for, sale under the laws for the time being in force in any place and it is otherwise not considered by IAG to be materially prejudicial to the interests of Preference Shareholders as a whole; or
 - (iv) necessary to comply with the provisions of any statute or the requirements of any statutory authority;
- (b) according to IAG's right in clause 3.7(e)(iii); or
- (c) generally, in any case where such amendment is considered by IAG not to be materially prejudicial to the interests of Preference Shareholders as a whole.

8.2 Amendment with consent

Without limiting clause 8.1, IAG may, with APRA's prior approval (if approval is then required), amend these Preference Share Terms if the amendment has been approved by a Special Resolution.

8.3 Meanings

In this clause 8, **amend** includes modify, cancel, alter or add to and **amendment** has a corresponding meaning.

9 Interpretation and definitions

9.1 Interpretation

- (a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these Preference Share Terms and IAG's constitution, then to the maximum extent permitted by law, the provisions of these Preference Share Terms will prevail.
- (b) Unless otherwise specified, the IAG Directors may exercise all powers of IAG under these Preference Share Terms as are not, by the Corporations Act or by IAG's constitution, required to be exercised by IAG in general meeting.
- (c) Notices may be given by IAG to a Preference Shareholder in the manner prescribed by IAG's constitution for the giving of notices to members of IAG and the relevant provisions of IAG's constitution apply with all necessary modification to notices to Preference Shareholders.
- (d) Unless otherwise specified, a reference to a clause is a reference to a clause of these Preference Share Terms.
- (e) If a calculation is required under these Preference Share Terms, unless the contrary intention is expressed, the calculation will be rounded to four decimal places.
- (f) Definitions and interpretation under IAG's constitution will also apply to these Preference Share Terms unless the contrary intention is expressed.
- (g) Any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply to IAG only if IAG is an entity, or the holding company of an entity, subject to regulation and supervision by APRA at the relevant time.
- (h) The terms takeover bid, relevant interest, scheme of arrangement, buy-back and on-market buy-back when used in these Preference Share Terms have the meaning given in the Corporations Act.

- (i) Headings and boldings are for convenience only and do not affect the interpretation of these Preference Share Terms.
- (j) The singular includes the plural and vice versa.
- (k) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (l) If an event under these Preference Share Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.
- (m) A reference to dollars, A\$, \$ or cents is a reference to the lawful currency of Australia.
- (n) Calculations, elections and determinations made by IAG under these Preference Share Terms are binding on Preference Shareholders in the absence of manifest error.

9.2 Definitions for Preference Share Terms

Acquisition Event means:

- (a) a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and:
 - (i) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or
 - (ii) the IAG Directors issue a statement recommending acceptance of the offer; or
- (b) a court approves a scheme of arrangement which, when implemented, will result in a person other than IAG having a relevant interest in more than 50% of the Ordinary Shares.

APRA means the Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of IAG or the Group.

ASX means Australian Stock Exchange Limited (ABN 98 008 624 691).

ASX Listing Rules means the listing rules of ASX with any modifications or waivers in their application to IAG, which ASX may grant.

ASX Market Rules means the market rules of ASX.

Bank Bill Rate has the meaning given in clause 2.1.

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

Conversion has the meaning given in clause 3.1(b) and **Convert** and **Converted** have corresponding meanings.

9.2 Definitions for Preference Share Terms (continued)

Conversion Number has the meaning given in clause 3.7(b).

Corporations Act means the Corporations Act 2001 (Cwth).

Dividend has the meaning given in clause 2.1.

Dividend Payment Date has the meaning given in clause 2.5 whether or not a Dividend is paid on that date.

Dividend Period means in respect of:

- (a) the first Dividend Period, the period from (and including) the Preference Share Issue Date until (but not including) the first Dividend Payment Date following the Preference Share Issue Date; and
- (b) each subsequent Dividend Period, the period from (and including) the preceding Dividend Payment Date until (but not including) the next Dividend Payment Date.

Dividend Rate has the meaning given in clause 2.1.

Franking Rate (expressed as a decimal) means the franking percentage (within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that Part) applicable to the franking account of IAG at the relevant Dividend Payment Date.

Group means IAG and its controlled entities.

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

IAG Directors means some or all of the directors of IAG.

Interest Payment has the meaning given in the RES Terms.

Interest Payment Date has the meaning given in the RES Terms.

Liquidation Sum has the meaning given in clause 4.5.

Optional Dividend has the meaning given in clause 2.8(f).

Ordinary Share means a fully paid ordinary share in the capital of IAG.

Ordinary Shareholder means a person whose name is registered as the holder of an Ordinary Share.

Preference Share has the meaning given in clause 1(a).

Preference Share Conversion Discount has the meaning given in clause 3.7(b).

Preference Share Exchange Date has the meaning given in clause 3.4(d).

Preference Share Exchange Notice has the meaning given in clause 3.3.

Preference Share Initial Margin has the meaning given in clause 2.1.

Preference Share Issue Date has the meaning given in clause 1(c).

Preference Share Issue Price has the meaning given in clause 1(b).

Preference Share Margin has the meaning given in clause 2.1.

Preference Share Terms means these terms of issue of Preference Shares.

Preference Shareholder means a person whose name is registered as the holder of a Preference Share.

Record Date means for payment of:

- (a) a Dividend, the date which is 11 Business Days before the Dividend Payment Date for that Dividend (or, in the case of the first Dividend Payment Date, if the Preference Share Issue Date is less than 11 Business Days before the first Dividend Payment Date, the Preference Share Issue Date); and
- (b) an Optional Dividend, the date prior to the payment of the Optional Dividend that is determined by the IAG Directors, or such other date as may be required by ASX.

Redemption has the meaning given in clause 3.1(a) and **Redeem** and **Redeemed** have corresponding meanings.

Regulatory Event means:

- (a) the receipt by IAG of an opinion from a reputable legal counsel that, as a result of any amendment to, clarification of or change (including any announcement of a prospective change) in, any law or regulation affecting securities laws of Australia or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations which amendment, clarification or change is effective, or pronouncement, action or decision is announced, on or after the Preference Share Issue Date, additional requirements would be imposed on IAG which the IAG Directors determine at their absolute discretion, to be unacceptable; or

9.2 Definitions for Preference Share Terms (continued)

(b) the determination by the IAG Directors that IAG is not or will not be entitled to treat all Preference Shares as Tier 1 Capital.

RES means perpetual reset exchangeable securities that are redeemable for cash, convertible into Ordinary Shares and exchangeable into Preference Shares and issued by IAG Finance (New Zealand) Limited (ABN 97 111 268 243) according to the RES Terms.

RES Terms means the terms of issue of RES contained in schedule 1 to the Trust Deed.

RPS1 means the reset preference shares issued by IAG according to the terms of issue set out in appendix A of the prospectus dated 6 May 2002.

RPS2 means the reset preference shares issued by IAG according to the terms of issue set out in appendix A of the prospectus dated 20 May 2003.

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

Step-Up Date means the first Dividend Payment Date on or after the ten year anniversary of the Preference Share Issue Date.

Tax Act means:

- (a) the Income Tax Assessment Act 1936 (Cwlth) or the Income Tax Assessment Act 1997 (Cwlth) as the case may be and a reference to any section of the Income Tax Assessment Act 1936 (Cwlth) includes a reference to that section as rewritten in the Income Tax Assessment Act 1997 (Cwlth); and
- (b) any other Act setting the rate of income tax payable and any regulation promulgated under it.

Tax Event means the receipt by IAG of an opinion from a reputable legal counsel or other tax adviser in Australia, experienced in such matters to the effect that, as a result of:

- (a) any amendment to, clarification of, or change (including any announced prospective change), in the laws or treaties or any regulations of Australia or any political subdivision or taxing authority of Australia affecting taxation;
- (b) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent

to adopt such procedures or regulations) (**Administrative Action**); or

- (c) any amendment to, clarification of, or change in, an Administrative Action that provides for a position that differs from the current generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known, which amendment, clarification, change or Administrative Action is effective, or such pronouncement or decision is announced, on or after the Preference Share Issue Date, there is more than an insubstantial risk that IAG would be exposed to more than a de minimis increase in its costs (having regard to any tax deductions available to IAG and the ability of IAG to frank Dividends) in relation to Preference Shares.

Tier 1 Capital means the core capital of IAG (on a solo basis if relevant) or the Group (on a consolidated basis) in each case, as defined by APRA.

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

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

Trust Deed means the trust deed executed by IAG Finance (New Zealand) Limited (ABN 97 111 268 243), IAG, IAG Portfolio Limited (ABN 38 111 769 843) and Permanent Trustee Company Limited (ABN 21 000 000 993) on or around 20 November 2004.

VWAP means, subject to any adjustments under clause 3.7(e), the average of the daily volume weighted average sale prices (rounded to the nearest full cent) of Ordinary Shares sold on ASX during the relevant period or on the relevant days but does not include any transaction defined in the ASX Market Rules as "special" crossings prior to the commencement of normal trading, crossings during the after hours adjust phase, crossings during the closing phase, overnight crossings, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

VWAP Period means the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding the relevant Preference Share Exchange Date.

Appendix D Financial Services Guide

What is the purpose and content of this guide?

This Financial Services Guide (“FSG”) dated 11 March 2004 is an important document. You should read it carefully and make sure you understand it. This FSG provides generic information about UBS AG, Australia Branch (ABN 47 088 129 613) (“UBS AG”, “us”, “we”, “our”) and the services we offer.

This guide also provides specific information about how you pay for our services. UBS AG is providing this FSG to give you key information about the types of financial services we offer. The FSG is intended to assist you in deciding whether to use any of the services offered.

The FSG contains, among other things:

- a summary of the financial services which we are authorised to provide and the kinds of financial products to which those services relate;
- information about the capacity in which we act when providing services to you;
- information about your rights as an investor;
- details on how you can instruct us in relation to your investment;
- information about the Product Disclosure Statement(s) and any Statement of Advice which you may receive from us;
- information about remuneration that may be paid to us and other relevant persons in relation to the services provided;
- information about how complaints against us are dealt with; and
- information which you can request when you are provided with further market-related advice.

In addition to this FSG, you may, from time to time, receive from UBS AG, a Product Disclosure Statement (“PDS”), a Statement of Advice (“SOA”), or a Record of Advice.

It is not UBS AG’s policy to provide personal financial product advice. If however, you do receive personal financial product advice from UBS AG, you will be provided with an SOA. The SOA will include a statement of UBS AG’s advice, the basis for that advice, as well as information about remuneration and fees that UBS AG may receive in connection with giving you the advice and interests, relationships or associations that may influence the advice.

If UBS AG makes a recommendation to acquire a particular financial product (other than securities) or offer to issue, or arrange the issue of a financial product to you, it will also provide you with a PDS. There are a number of exceptions to when UBS AG must provide a PDS including: where you already have a current PDS; you hold a financial product of the same kind and you have access to current information about that kind of financial product; or the offer is made under a distribution reinvestment plan or switching facility.

The PDS contains details about the particular product and any significant risks associated with holding the product, any amounts that you must pay, and in the case of products which will or may generate a return, information about any commission or other similar payments that will or may impact on the amount of the returns payable to you.

Important information is provided below in answer to commonly asked questions.

Who will be responsible for the financial services given to you?

The financial services listed below will be provided by UBS AG. UBS AG is an Australian Financial Services Licensee under the Corporations Act (Licence No. 231087). It is a foreign Authorised Deposit-Taking Institution under the Banking Act 1959 (Cth), a Full Participant of the Sydney Futures Exchange, a Clearing Participant of SFE Clearing, and a Full Member of Austraclear.

What financial services are we authorised to provide?

UBS AG is authorised to provide the following financial services:

1. Advising in the following classes of financial products:
 - securities;
 - debentures, stocks or bonds issued or proposed to be issued by a government;
 - derivatives;
 - foreign exchange contracts;
 - warrants which may be managed investment products;
 - managed investment schemes (excluding investor directed portfolio services); and
 - deposit and payment products;
2. Dealing in the following classes of financial products:
 - securities;
 - debentures, stocks or bonds issued or proposed to be issued by a government;
 - derivatives;
 - foreign exchange contracts;
 - warrants which may be managed investment products;
 - managed investment schemes (excluding investor directed portfolio services); and
 - deposit and payment products;
3. Underwriting interests in managed investment schemes and issues of securities; and
4. Making markets for all financial products.

How will you pay for the services and how are any commissions, fees or other benefits calculated?

You may pay UBS AG a fee depending on the services and/or products you choose and the amount you invest.

In particular, UBS AG may receive fees and other benefits from the financial products that it issues to you. To the extent that a PDS is required for a transaction involving a particular financial product, the PDS for the financial product will disclose details of commissions, fees or other benefits received by UBS AG (and any of its related companies) in respect of the transaction involving that financial product.

Related entities of UBS AG may provide financial services in connection with financial products issued by UBS AG. For example, in respect of financial products issued by UBS AG, UBS Securities Australia Limited (ABN 62 008 586 481) may act as broker and market maker. UBS Nominees Pty Limited (ABN 32 001 450 522) may also provide custodial services for financial products provided by UBS AG.

Will anyone be paid for referring me to you?

UBS AG has arrangements with a number of financial intermediaries in relation to the provision of financial products by it to clients of those financial intermediaries. In those circumstances, a referral fee may be paid to the financial intermediary.

This referral fee is usually based on the value of the transaction or financial product that has been provided to you, and the total fee paid will range from 0% to 8% of the value of that transaction or product. The referral fee may be paid in the form of an upfront selling fee and/or periodic trail fees.

In what capacity do we act?

When providing the above financial services to you we act in a principal capacity and not as a representative of any other person.

What kind of advice will you receive?

It is UBS AG's policy not to provide personal financial product advice. To the extent any advice is given, it is general financial product advice and does not take account of your personal circumstances, needs or objectives. Thus any resulting investment may not be appropriate to your needs and objectives and you should carefully assess how appropriate the recommendations are in light of your particular investment objectives, financial situation and needs.

General financial product advice may also be given through research reports and in product disclosure statements. This advice is not personal advice as it does not consider your personal circumstances, needs or objectives. You should consider your personal objectives, financial situation and needs when reviewing this information before making any decision relating to a financial product, and seek professional independent advice if you think that is appropriate.

What are your rights as an investor?

Where you do receive personal financial product advice your adviser is obliged to have a reasonable basis for the advice given. This means that your adviser must give consideration to your investment objectives, financial situation and particular needs and conduct a reasonable investigation of the subject matter of the advice. If you do not wish to provide personal information, your adviser will be limited in his or her ability to make recommendations specific to your requirements.

You have the right to be advised about any remuneration (including commissions) or other benefit that UBS AG, your adviser and other relevant persons are to receive that may reasonably be expected to be capable of influencing the advice provided to you.

How can you instruct us to buy or sell your investment or change your service arrangements with us?

You must specify to your adviser or to UBS AG exactly what you want us to do. You may give us instructions by telephone, facsimile, in writing or any other means that we agree with you.

What information do we maintain in your file?

We maintain a record of items of personal information that you have provided to us, for example, as recorded in your account opening forms, financial product application forms or transaction documents.

All personal information (as defined in the Privacy Act 1988 (Cth)) collected from you will be used and stored by us in accordance with the Privacy Policy for UBS AG. A copy of the Privacy Policy can be made available to you on request.

What can you do if you have a complaint?

If you have a complaint about the service provided to you by UBS AG or any of their representatives, you should take the following steps.

1. Contact the UBS AG Representative with whom you have been dealing and tell that person about your complaint.
2. If your complaint is not satisfactorily resolved within 3 business days, please contact our Regional Manager in your State or put your complaint in writing and send it to us at the following address:

**The Complaints Officer
c/- Legal & Compliance Department
UBS
Level 25, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000**

We will try to resolve your complaint quickly and fairly.

3. If you still do not get a satisfactory outcome, you have the right to complain to:

**Financial Industry Complaints Service Limited
PO Box 579, Collins Street West
Melbourne VIC 8007
Telephone: 1300 78 08 08
Fax: 03 9621 2291
Email: fics@fics.asn.au**

The Australian Securities and Investment Commission (ASIC) also has a free call Infoline on 1300 300 630 which you may use to make a complaint and obtain information about your rights.

If you would like clarification of any of the matters discussed in this Guide, or require further information including a copy of our internal complaint policy, please contact your adviser.

Contact details

If you have any queries, you can contact us on (612) 9324 2000.

Corporate directory

Issuer

IAG Finance (New Zealand) Limited
Level 26, 388 George Street
Sydney NSW 2000

IAG Finance (New Zealand) Limited
New Zealand branch
IAG House
Level 10, 151 Queen Street
Auckland New Zealand

The Issuer is a wholly-owned subsidiary of
Insurance Australia Group Limited
Level 26, 388 George Street
Sydney NSW 2000

Legal adviser

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

Auditor

KPMG
10 Shelley Street
Sydney NSW 2000

Tax adviser

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

Trustee

Permanent Trustee Company Limited
Level 4, 35 Clarence Street
Sydney NSW 2000

Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Lead Manager & Bookrunner

UBS AG, Australia Branch
Level 25, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Senior Co-Managers

Citigroup Global Markets Australia Pty Limited
Level 22, 2 Park Street
Sydney NSW 2000

Goldman Sachs JBWere Pty Limited
Level 48, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Macquarie Equities Limited
No.1 Martin Place
Sydney NSW 2000

Ord Minnett Limited
Level 8, NAB House
255 George Street
Sydney NSW 2000

UBS Private Clients Australia Limited
Level 8, 530 Collins Street
Melbourne VIC 3000

Co-Managers

Bell Potter Securities Limited
Level 33, Grosvenor Place
225 George Street
Sydney NSW 2000

Commonwealth Securities Limited
Level 14, 363 George Street
Sydney NSW 2000

Deutsche Securities Australia Limited
Level 18, Grosvenor Place
225 George Street
Sydney NSW 2000

Grange Securities Limited
Level 33, 264 George Street
Sydney NSW 2000

Tricom Equities Limited
Level 9, Exchange House
10 Bridge Street
Sydney NSW 2000

RES Information Line 1300 666 635

Monday to Friday (8.30am to 5.30pm)



Issuer

IAG Finance (New Zealand) Limited

(ABN 97 111 268 243),

through its New Zealand branch

The Issuer is a wholly-owned subsidiary of

Insurance Australia Group Limited

(ABN 60 090 739 923)