

Prospectus

For the issue of Reset Preference Shares at \$100 each

Applications must be for a minimum of 100 Reset Preference Shares ("RPS") (\$10,000)



Reset Preference Shares

INSURANCE AUSTRALIA GROUP LIMITED ABN 60 090 739 923

Lead Manager Macquarie Equity Capital Markets Limited

Co Managers ABN AMRO Morgans Limited
Commonwealth Securities Limited
JBWere Limited



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Disclaimer

No person is authorised to give any information or to make any representation in connection with the Offer of the RPS described in this Prospectus which is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by IAG in connection with the Offer. Except as required by law, and only to the extent so required, neither IAG nor any other person warrants the future performance of IAG or any return on any investment made pursuant to this Prospectus.

Important Information

This Prospectus is dated 6 May 2002 and a copy of this Prospectus was lodged with ASIC on that date. No RPS will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. ASIC and ASX take no responsibility for the content of this Prospectus.

This Prospectus will be made generally available during the exposure period and the Offer Period electronically on the Lead Manager's website at www.macquarie.com.au/iag, the Insurance Australia Group Limited ("**IAG**") website at www.iag.com.au/rps, at the website of each of the Co Managers (as set out in the Corporate Directory) or by calling 02 8218 8405 for a copy to be provided free of charge.

Applications under this Prospectus will not be accepted prior to the opening of the Offer Period. The exposure period is generally for seven days after lodgement of the Prospectus with ASIC, however, ASIC may extend it by up to a further seven days.

Applicants should read this Prospectus in its entirety before deciding whether to participate in the Offer. If, after reading this Prospectus, you have any questions about the Offer, you should contact your stockbroker, accountant or other professional adviser.

Applications for the RPS can only be submitted on Application Forms attached to, or accompanying, this Prospectus. See section 2.2 for details on how to invest.

No action has been taken to register the RPS or otherwise permit a public offering of the RPS in any jurisdiction outside of Australia. In particular, the RPS have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold within the United States.

Some words used in this Prospectus have defined meanings, which are set out in the Glossary or otherwise in clause 9 of the Terms of Issue in Appendix A.

Summary of key dates

Event	Date¹
Announcement of Offer	6 May 2002
Bookbuild	13 & 14 May 2002
Dividend Rate announcement	15 May 2002
Opening Date	16 May 2002
Closing Date	31 May 2002
Allotment of the RPS	4 June 2002
RPS commence trading on ASX on a deferred settlement basis	5 June 2002
Holding statements despatched	7 June 2002
RPS commence trading on ASX on a normal settlement basis	11 June 2002
First Dividend Payment Date	15 December 2002
First Reset Date	15 June 2007

¹ These dates are indicative only and are subject to change. IAG has the right, subject to agreement with the Lead Manager, to extend the Closing Date for the Offer or to close the Offer early without notice. Accordingly, investors are encouraged to submit their Application Forms as soon as possible after the Offer opens. If the Closing Date for the Offer is extended, the subsequent dates will also be extended. Application will be made to ASX for admission of the RPS to quotation on ASX, within seven days after the date of this Prospectus. The dates in this table are indicative only and depend on ASX approving this application.



Dear Investor

On behalf of the Directors, I am pleased to offer you the opportunity to invest in Insurance Australia Group Limited ("IAG") through an investment in the Reset Preference Shares ("RPS").

The issue of the RPS forms part of IAG's ongoing capital management program and was foreshadowed on 1 March 2002 at the time the Company released its half year results. The proceeds from this Offer are intended to be used to buy back Ordinary Shares to achieve a more efficient capital structure. The issue of the RPS will also broaden the range of opportunities available for investors in IAG.

IAG intends to issue up to 3 million RPS at a Face Value of \$100 each, to raise up to \$300 million, with the ability to accept oversubscriptions up to \$50 million. The RPS are a non-cumulative preference share intended to be quoted on the Australian Stock Exchange.

The RPS offer investors a preferred dividend fixed until 15 June 2007 at a rate of 5.80% which is expected to be fully franked.

The RPS have no maturity date. However, investors have the right to Exchange the RPS at the Face Value on each Reset Date, the first of which will occur on 15 June 2007. Investors who wish to realise their investment prior to the Reset Date can sell on the Australian Stock Exchange at the prevailing market price. However, there can be no assurance as to what that price will be.

Full details of this investment are set out in this Prospectus and I urge you to read it carefully. To subscribe for the RPS, you will need to fill out the Application Form attached to, or accompanying, this Prospectus. Applications can only be made on this Application Form. If you have any questions regarding the Offer, please contact your stockbroker, accountant or other professional adviser, or call the IAG RPS Information Line on 1300 666 635.

The Offer is due to open on 16 May 2002 and close on 31 May 2002. However, it is possible that these dates will change so I encourage you to lodge your Application early.

On behalf of the Board, I invite you to consider this investment opportunity.

Yours faithfully,

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

James Strong
Chairman

1

Offer Summary

1.1 The Offer structure

IAG intends to issue up to 3 million RPS at a Face Value of \$100 each, to raise up to \$300 million, with the ability to accept oversubscriptions up to \$50 million.

1.2 Summary terms

Set out below is a summary of the key Terms of Issue of the RPS. This information is a summary only, and should be read in conjunction with other information contained in this Prospectus, in particular the Investment Risks and Terms of Issue in section 5 and Appendix A respectively.

Issuer	Insurance Australia Group Limited.
Security	Reset Preference Share(s).
Face Value	\$100 per RPS.
Dividend	A preferential non-cumulative Dividend fixed until the first Reset Date (15 June 2007) at 5.80% per annum which is expected to be fully franked.
Calculation of Dividend	<p>The Dividend is determined by reference to the Market Rate and the Margin which is then adjusted to reflect the franking credits that are expected to be attached to the Dividend. The Margin for the period to the first Reset Date was determined by the Bookbuild on 13 and 14 May and is 1.90%. The Market Rate for the period to the first Reset Date was calculated by reference to the 5 year swap rate on the day the Margin was announced, which is 6.38%.</p> <p>The prevailing corporate tax rate is 0.30 and the Dividend is expected to be fully franked, so the amount of the adjustment for the franking credits is 0.70. See section 3.3 and clause 2.1 of the Terms of Issue.</p> <p>The amount of the Dividend can be reset on each Reset Date.</p>
Payment of Dividend	<p>The payment of Dividends is subject to a number of conditions. See section 3.6 for details.</p> <p>If Dividends are not paid on the RPS, no dividends can be paid and no returns of capital can be made on Ordinary Shares unless IAG takes certain actions. Non-payment of Dividends will generally not entitle the Holder to Exchange. See section 3.8 for further details.</p> <p>IAG may deduct any withholding tax or other tax from the payment of Dividends which are required by law to be deducted from such payment. See clause 2.8 of the Terms of Issue.</p>
Franking	IAG expects the Dividends to be fully franked. If a Dividend is unfranked or partially franked, the Dividend will be increased to compensate for the unfranked component.
Reset Dates	On each Reset Date, IAG may reset certain terms, including the next Reset Date, Margin, Market Rate, and frequency and timing of payment of Dividends. The first Reset Date will be 15 June 2007. See clause 4 of the Terms of Issue.

Exchange by IAG

IAG may Exchange some or all RPS on a Reset Date or earlier in respect of all of the RPS following the occurrence of a Tax Event or Regulatory Event, certain takeovers or schemes of arrangement.

On Exchange, IAG may:

- Convert the RPS into Ordinary Shares; or
- Redeem, buy back or cancel the RPS for their Face Value subject to prior approval by APRA.

Exchange by the Holder

A Holder may Exchange some or all RPS on a Reset Date or earlier in respect of all RPS following the occurrence of a Trigger Event.

On Exchange, IAG may:

- Convert the RPS into Ordinary Shares; or
- Arrange a third party to acquire the RPS from the Holder for their Face Value; or
- Redeem, buy back or cancel the RPS for their Face Value subject to prior approval by APRA.

Conversion ratio

The rate at which the RPS will convert into Ordinary Shares will be calculated by reference to the average of the daily volume weighted average sale price of Ordinary Shares sold on ASX during the 20 Business Days immediately preceding the Exchange Date.

All conversions into Ordinary Shares, other than a Holder requesting conversion on a Reset Date, will receive a discount of 2.5% of the price used in calculating the number of Ordinary Shares to be issued on conversion. See clause 3.6 of the Terms of Issue.

Ranking

Dividends will be paid in priority to any dividends on Ordinary Shares.

In a winding up, the RPS will rank for return of capital behind all creditors of IAG but ahead of Ordinary Shares.

IAG reserves the right in the future to issue additional RPS or other preference shares ranking equally with the RPS.

Participation

The RPS do not carry a right to participate in issues of securities or capital reconstructions.

Voting rights

No right to vote at general meetings, except in limited circumstances.

Listing

Quoted on ASX, subject to successful application. Quotation is not guaranteed or automatic.

1.3

Risks

There are particular risks associated with investing in the RPS, as well as general risks associated with investing in IAG. A summary of investment risks are set out in section 5.

Investors should read the whole of this Prospectus carefully. If an investor is unclear in relation to any matter or uncertain if the RPS are a suitable investment, the investor should consult their stockbroker, accountant or other professional adviser.

2 Details of the Offer

IAG

Reset Preference Shares

Reset Preference

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2.1

Structure of the Offer

Allotment and allocation policy

IAG intends to issue the RPS under this Offer on 4 June 2002, although IAG has the right to change this date subject to agreement with the Lead Manager.

IAG and the Lead Manager will nominate allottees in respect of firm allocations to bids by institutional investors and Participating Brokers under the Bookbuild. The distribution of each firm allocation to clients by a Participating Broker will be at the discretion of that broker, and will be subject to the terms and conditions of the Bookbuild and the offer made to that broker by the Lead Manager. IAG (after consultation with the Lead Manager) may nominate allottees for allocation of RPS for the balance of the Offer.

IAG intends to issue up to 3 million RPS at a Face Value of \$100 each, to raise up to \$300 million, with the ability to accept oversubscriptions up to \$50 million.

If an Application is not accepted, or is accepted in part only, the relevant part of the application money will be refunded as soon as practicable after the Offer closes. No interest will be paid on any application money returned.

ASX listing

Application will be made to ASX within seven days after the date of this Prospectus for official quotation of the RPS issued under this Prospectus. If quotation is not granted on ASX, the RPS will not be issued and application money will be refunded without interest.

ASX deferred settlement trading

It is expected that the trading of the RPS on ASX will commence on a deferred settlement basis on 5 June 2002 following announcement of allocations, and will continue on that basis until 11 June 2002 when it is expected that trading of the RPS will be on a normal settlement basis. This is because trading will take place before entries are made on IAG's register in respect of holdings of the RPS and before holding statements are sent out to Holders.

It is the responsibility of each applicant to confirm their holding prior to trading in the RPS. Applicants who sell their RPS before they receive their shareholder statements will do so at their own risk. Applicants may call their broker or the IAG RPS Information Line on 1300 666 635 to enquire about their holding.

Provision of holding statements

IAG will apply for the RPS to participate in CHESS and, if official quotation is granted by ASX, no share certificates will be issued. On 7 June 2002, IAG expects shareholder statements to be despatched, which will set out the number of the RPS issued to each successful applicant.

2.2

How to invest

Who may apply?

The Offer is available to persons receiving the Prospectus (including the copy of this Prospectus available electronically) within Australia. No action will be taken to register the Prospectus or otherwise permit a public offering of the RPS in any jurisdiction outside Australia. The Offer is not made in any jurisdiction where the laws of that jurisdiction would require the Prospectus to be registered or other action to be taken by IAG.

Minimum Application

The price for each RPS is \$100. Applications must be for a minimum of 100 RPS (\$10,000). IAG and the Lead Manager reserve the right to reject any Applications, or to allocate any applicant a lesser number of the RPS than those applied for, including less than the minimum Application of 100 RPS (\$10,000). See section 2.1 for the allotment and allocation policy.

When to apply

The Offer is due to open at 9.00am (Sydney time) on 16 May 2002 and is scheduled to close at 5.00pm (Sydney time) on 31 May 2002. Applications for the RPS must be received no later than 5.00pm (Sydney time) on the Closing Date in accordance with the instructions below.

IAG may extend the Closing Date or close the Offer early without notice. Applicants for the RPS under the Offer are encouraged to submit the relevant Application Form as soon as possible after the Offer opens.

Broker firm allocations

Some applicants may be participating in the offer through their stockbroker. Any person who receives a firm allocation of the RPS from a Participating Broker must return their completed Application Form (together with payment) directly to the Participating Broker and not to ASX Perpetual Registrars Limited. Broker firm applicants should contact the Participating Broker from whom they received their firm allocation of the RPS for information about submitting an Application or payment instructions. Such applicants will be able to obtain a copy of this Prospectus from the relevant Participating Broker or from their website (if available).

General Applications

To apply for the RPS, you must complete the Application Form attached to, or accompanying, this Prospectus in accordance with the instructions set out on the Application Form. Once the Offer opens, an Application Form will accompany the electronic copy of this Prospectus which is available from the Lead Manager's website (www.macquarie.com.au/iag) or from IAG's website (www.iag.com.au/rps). Your completed Application Form and payment should be returned to the address set out below.

Application Forms, duly completed, must be accompanied by a cheque(s) or money order in Australian dollars and must be drawn on an Australian branch of a financial institution. Cheques should be crossed 'not negotiable' and made payable to '**IAG RPS Account**'.

Application Forms and accompanying cheques or money orders will not be accepted at IAG's registered office, at any of the NRMA branches or other branded offices forming part of or outside of the Group.

Completed Application Forms and accompanying cheques

must be mailed to:

Insurance Australia Group Limited
Reply Paid 35
Eastern Suburbs MC NSW 2004

or hand delivered to:

ASX Perpetual Registrars Limited
Level 8
580 George Street
Sydney NSW 2000

Failure to comply with the above may mean that your Application is not accepted.

If an Application is not accepted, or is accepted in part only, the relevant part of the application money will be refunded to the applicant as soon as practicable after the Offer closes. No interest will be paid on any application money returned to an applicant.

Brokerage and stamp duty

No brokerage or stamp duty on the issue of the RPS is payable by applicants who complete the Application Form correctly. Stamp duty will not be payable on subsequent transfers of the RPS while RPS are quoted on ASX. However, brokerage may be payable on subsequent transfers of the RPS.

Tax File Numbers/Australian Business Numbers

If applicants do not quote their tax file number (“TFN”), TFN exemption details (if applicable) or Australian Business Number (“ABN”) (if the RPS are held as part of an enterprise carried on by a Holder) on their Application Form or subsequently provide such information to IAG, then IAG will be required to withhold tax at the rate of 48.5% of the amount of any unfranked Dividend in respect of the RPS held by those Holders.

Enquiries

If you require assistance to complete the Application Form, you should contact any of the following:

	RPS Information Lines
Lead Manager	
Macquarie Equity Capital Markets Limited	1800 621 656
Co Managers	
ABN AMRO Morgans Limited	1800 777 946
Commonwealth Securities Limited	13 1519
JBWere Limited	1800 003 355
IAG RPS Information Line	1300 666 635

If you are unclear in relation to any matter or are uncertain if the RPS are a suitable investment for you, you should contact your stockbroker, accountant or other professional adviser. If you have a firm allocation of the RPS and are in any doubt about what action you should take, you should immediately contact your Participating Broker.

By returning an Application Form, the applicant acknowledges that they have received and read this Prospectus.

2.3

Bookbuild

In the period after lodgement of this Prospectus and prior to the opening of the Offer, the Lead Manager will co-ordinate the Bookbuild process in relation to the Offer.

The Bookbuild will be conducted in accordance with terms and conditions approved by IAG and the Lead Manager. The Bookbuild will be open to institutional investors as well as Participating Brokers (who wish to obtain a firm allocation of the RPS) to lodge bids for the RPS to be issued under the Offer. Bids will be invited for a maximum number of the RPS within an indicative range for the Margin.

IAG and the Lead Manager, will determine allocations to institutional investors and Participating Brokers after the conclusion of the Bookbuild. The Margin specified in the printed version of this Prospectus will be determined by IAG and the Lead Manager on the basis of the outcome of the Bookbuild. The Market Rate equals the Swap Rate on the date the Margin determined under the Bookbuild is announced. ASIC has permitted the Dividend Rate, Margin and Market Rate to be inserted into this Prospectus after lodgement and prior to the printing of this Prospectus.

3 Answers to Key Questions

IAG

Reset Preference Shares

Reset Preference

This section answers some questions which investors may have about the RPS. These answers are intended as a guide only. Further details are provided elsewhere in this Prospectus, which you should read in its entirety. The Terms of Issue of the RPS are set out in full in Appendix A.

3.1 What are IAG RPS?

The RPS are a preference share that:

- rank in priority to Ordinary Shares for the payment of dividends and for a return of capital in the event of a winding-up;
- entitle the Holder to receive non-cumulative Dividends;
- are perpetual but can be exchanged in a number of circumstances; and
- have particular terms that may be reset at the discretion of IAG at any Reset Date.

3.2 When will Dividends be paid?

Dividends will be payable generally on 15 June and 15 December each year, with the first Dividend payable on 15 December 2002. The frequency and timing of the payment of Dividends can be reset by IAG on a Reset Date. Dividends are also paid on an Exchange Date. See also section 3.6 and 3.8 below.

3.3 How will Dividends be determined?

The Dividend to the first Reset Date is calculated by reference to the Margin and the Market Rate determined by the Bookbuild described in section 2.3. The sum of the Market Rate and the Margin are adjusted to reflect the expectation that the Dividend paid on the RPS will be fully franked. The amount of the adjustment is determined based on the prevailing corporate tax rate and reflects the franking credits that are expected to be attached to the Dividend, assuming the Dividend paid on the RPS is fully franked. For the period to the first Reset Date, the amount of the adjustment is 0.70. The Margin and Market Rate may be reset each Reset Date. Dividends for future periods may be greater or less than the Dividend to the first Reset Date (see clause 4.1 of the Terms of Issue). To meet APRA's requirements for Tier 1 capital, there are certain restrictions on IAG's ability to reset the Margin and Market Rate on a Reset Date, which may be waived in whole or in part by APRA. See clause 4.2 of the Terms of Issue. See section 3.9 for other changes that can be made on a Reset Date.

3.4 What happens if IAG is unable to pay fully franked Dividends?

If IAG is unable to pay a fully franked Dividend, the Dividend will be increased to compensate for the unfranked portion in accordance with the formula set out in the Terms of Issue.

3.5 What happens if the Australian corporate tax rate changes?

If there is a change in the Australian corporate tax rate applicable to the franking account of IAG from which the Dividend will be franked, the Dividend will be adjusted in accordance with the formula set out in the Terms of Issue.

3.6 Will Dividends always be paid?

A RPS is not a debt instrument, and the Dividends payable are not the same as interest payments. Dividends may not always be paid as the payment of Dividends is subject to a number of conditions.

These conditions are:

- the Directors, at their discretion, determining a Dividend to be payable;
- IAG having profits, either current or retained, available for the payment of a Dividend;
- the payment of the Dividends having the result that IAG will still comply with APRA's capital adequacy guidelines regarding the Total Capital Adequacy Ratio and the Tier 1 Capital Ratio of the Group as they are applied at that time;
- unless otherwise approved by APRA, the amount of the Dividend not exceeding the profits after tax of the Group for the immediately preceding financial year less the aggregate amount of dividends paid by IAG in the then current financial year (i.e. that there are sufficient current year profits); and
- APRA not objecting to the payment of the Dividend.

IAG expects to meet these conditions and pay Dividends on the RPS. However, like other insurance and financial services groups, due to the Group's volatility of earnings there can be no guarantee that in certain years IAG will have sufficient current year profits to satisfy the requirement in the fourth bullet point above. In this circumstance, IAG may pay a Dividend provided APRA has no objection. See section 5.2 for an outline of the major risks affecting the level of profitability of the Group.

3.7 Will Dividends always be paid in cash?

As outlined in section 3.6, where IAG does not have sufficient current year profits and this is the only condition to the payment of a Dividend on the RPS that has not been met, the Directors of IAG may still pay a Dividend, provided that APRA does not object. The Directors may also determine in these circumstances, that the Holders will participate in a dividend reinvestment plan established by IAG in respect of that Dividend. Were this to occur, Holders in RPS would still be entitled to receive any franking credits in respect of that Dividend.

3.8 What happens if a Dividend payment is not made?

Dividends on the RPS are non-cumulative. Accordingly, if a Dividend, or part of a Dividend, is not paid on a Dividend Payment Date, IAG is not required to pay the unpaid amount at any later time. The RPS are not debt instruments and the Dividends are not the same as interest payments.

Non-payment of Dividends does not entitle a Holder to request an Exchange of the RPS, except in the limited circumstance where the Directors have determined that a Dividend is payable but the Dividend is not subsequently paid within 20 Business Days of the Dividend Payment Date.

See clause 3.2 of the Terms of Issue.

If IAG does not pay a Dividend on a Dividend Payment Date (or within 20 Business Days of that date), then IAG may not pay a dividend on Ordinary Shares or return capital without the requisite approval of Holders, unless:

- two consecutive Dividends stated to be payable on the RPS thereafter have been paid in full (or an equivalent amount of Dividends has been paid, if the frequency of payment is other than semi-annual); or
- an Optional Dividend has been paid to Holders equal to the unpaid amount (if any) of the two immediately preceding Dividends prior to the date of payment of the Optional Dividend (or an equivalent amount of Dividends has been paid, if the frequency of payment is other than semi-annual); or
- all the RPS have been converted, redeemed, bought back or cancelled.

3.9 — **What are Reset Dates?**

Reset Dates are dates on which IAG may reset any or all of the following terms:

- the next Reset Date;
- Margin;
- Market Rate; and
- frequency and timing of payment of Dividends.

There are restrictions on IAG's discretion to change these terms. See clauses 4.1 and 4.2 of the Terms of Issue. IAG must notify Holders of any such changes at least 50 Business Days prior to the relevant Reset Date.

3.10 — **What happens on a Reset Date?**

IAG may vary terms

IAG may make changes to the terms as detailed above.

The new terms will apply from the day after the relevant Reset Date until and including the next Reset Date. See clause 4.1 of the Terms of Issue.

What can the Holder do approaching the Reset Date?

A Holder may deliver a Holder Exchange Notice to IAG at least 35 Business Days prior to a Reset Date in respect of some or all of their RPS. IAG will then notify the Holders at least 21 Business Days prior to a Reset Date which one of the following methods of Exchange it intends to apply on the Reset Date:

- Convert the RPS into Ordinary Shares; or
- Arrange a third party to acquire the RPS from the Holder for their Face Value; or
- Redeem, buy back or cancel the RPS for their Face Value, subject to prior approval by APRA.

In this circumstance, Exchange only occurs on the Reset Date. See clause 3.1 of the Terms of Issue.

What can IAG do approaching the Reset Date?

IAG may deliver an Issuer Exchange Notice to Holders at least 35 Business Days prior to a Reset Date in respect of some or all of the Holders' RPS. The Issuer Exchange Notice will include which one of the following methods of Exchange it intends to apply on the Reset Date:

- Convert the RPS into Ordinary Shares; or
- Redeem, buy back or cancel the RPS for their Face Value subject to prior approval by APRA.

Exchange only occurs on the Reset Date. See clause 3.3 of the Terms of Issue.

3.11 — **Can an Exchange occur on a date other than a Reset Date?**

In addition to a Reset Date:

- the Holder can Exchange upon a Trigger Event, eg. certain takeovers or schemes of arrangement; and
- IAG can Exchange on a Tax Event or Regulatory Event (eg. if the RPS no longer qualify as Tier 1 Capital) or following certain takeovers or schemes of arrangement.

See clauses 3.2 and 3.3 of the Terms of Issue.

3.12 — What happens on conversion?

Each of the RPS that are to be converted will convert into Ordinary Shares with reference to the average of the daily volume weighted average sale price of Ordinary Shares sold on ASX during the 20 Business Days immediately preceding the Exchange Date.

This means that the number of Ordinary Shares issued on any conversion will vary depending on the Ordinary Share price over the 20 Business Days immediately prior to the Exchange Date. On any conversion, except where the Holder delivers a Holder Exchange Notice prior to a Reset Date, Holders will receive Ordinary Shares with a value of \$102.56 per RPS held calculated on that basis. On a conversion in all other circumstances, Holders receive Ordinary Shares with a value of \$100 per RPS (again calculated on the basis of Ordinary Share price over the 20 Business Days immediately prior to the Exchange Date). See clauses 3.5 and 3.6 of the Terms of Issue.

On any conversion, each of the RPS will convert into Ordinary Shares which will rank equally in all respects with all other Ordinary Shares from the Exchange Date.

3.13 — What is the relevance of the 5% shareholding limit in IAG's constitution?

Until 8 August 2005, IAG's constitution (unless amended by special resolution) gives the Board the discretion to require a shareholder to dispose of shares in IAG if that shareholder holds a relevant interest in more than 5% of the voting shares in IAG. See section 7.5 for further details.

The RPS are not "voting shares" for the purposes of this discretion. However, the Ordinary Shares into which the RPS may convert are "voting shares" and will be taken into account in determining a shareholder's relevant interest. This will be relevant if the RPS are converted prior to 8 August 2005.

The RPS may be converted into Ordinary Shares prior to 8 August 2005 in certain circumstances (eg. following certain takeovers or schemes of arrangement) and IAG elects to convert the RPS in such circumstances. Any shareholder who holds a relevant interest in more than 5% of the voting shares in IAG as a result of such conversion may be required by the Board to dispose of some of their Ordinary Shares.

3.14 — What happens in the event of redemption?

On redemption, or if IAG buys back or cancels the RPS, each of the RPS will be redeemed, bought back or cancelled at their Face Value. IAG may only do this if APRA gives prior approval.

3.15 — Can the RPS be traded on ASX?

IAG will apply within seven days after the date of this Prospectus for the RPS to be quoted on ASX. Once quoted on ASX, the RPS can be purchased or sold through any stockbroker in Australia. The price may be higher or lower than the Face Value and will depend, among other things, on the level of supply and demand for the RPS.

3.16 — Can I require a repurchase, buy back or redemption of my investment?

Holders cannot require IAG to repurchase their investment.

3.17 — In a winding up, what will Holders of the RPS receive?

In the event of a winding up of IAG, Holders will be entitled to a return of capital of up to the Face Value of the RPS and any due but unpaid Dividend entitlement after all creditors and other liabilities of IAG have been paid. The RPS do not confer any further right to participate in a distribution of IAG's assets. The Holders will rank ahead of holders of Ordinary Shares in a winding up to the extent of the Face Value of the RPS and any due but unpaid Dividend entitlement.

In the event of a shortfall of funds on a winding up such that there are not sufficient funds to pay this amount to all Holders, Holders will not receive a full return, but will receive a pro rata return with other preference shareholders ranking equally with the RPS, including holders of preference shares issued after the RPS.

3.18 — What are the taxation implications of holding or selling the RPS?

The taxation implications of investing in the RPS will depend on the Holders' individual circumstances. Investors should obtain their own taxation advice. A summary of some of the relevant matters is set out in section 6.

3.19 — Do the RPS have voting rights?

The RPS do not have voting rights at general meetings of IAG, except in limited circumstances (see clause 6 of the Terms of Issue) in which case each of the RPS will carry the same voting rights as if they were converted into Ordinary Shares immediately prior to the meeting.

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

4 IAG and its Operations

4.1 Overview of business

IAG's main activities are the manufacture and distribution of motor and home insurance, commercial (small to medium businesses) insurance, health insurance, compulsory third party motor liability ("CTP") and workers' compensation insurances. The Group also provides retirement solutions under the ClearView Retirement Solutions brand which was launched in February 2002.

IAG owns a variety of subsidiaries and brands through which these products are distributed. These are referred to collectively in this Prospectus as either IAG or the Group. These brands include NRMA Insurance, ClearView Retirement Solutions, SGIO, SGIC, State and Circle.

The Group also sells products under certain third party brands, most notably RACV Insurance in Victoria.

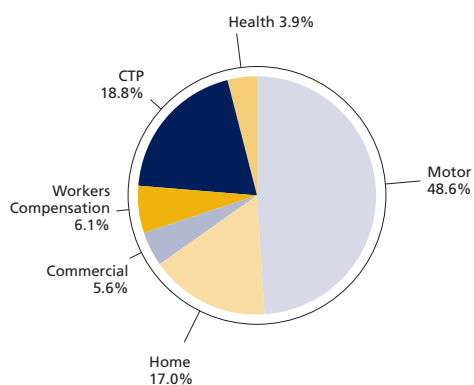


The Group, with approximately \$3.2 billion in Gross Written Premium for the financial year ended 30 June 2001, is the largest general insurance company in Australia and New Zealand (as measured by Gross Written Premium in the respective countries). The Group provides its products and services to approximately 3.8 million customers in Australia and approximately 700,000 customers in New Zealand.

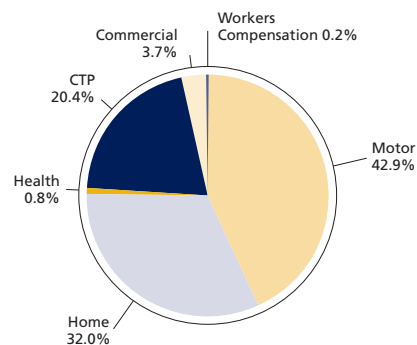
IAG, under its former name of NRMA Insurance Group Limited, listed on ASX on 8 August 2000. Its name and ASX code (IAG, formerly NRM) were changed in January 2002 to better reflect the Group's size, diversity, geographical distribution and aspirations.

The following charts summarise the Group's business by product line in terms of both Gross Written Premium (approximately \$3.1 billion excluding inwards reinsurance run-off business) and policies in force (approximately 8.7 million) for the financial year ended 30 June 2001.

Analysis of Gross Written Premium



Analysis of policies in force



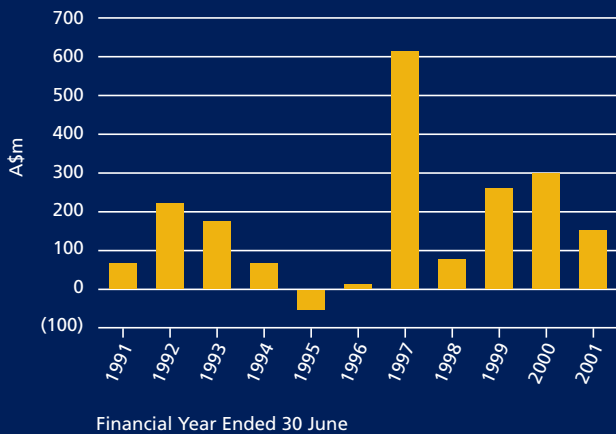
Notes *In relation to the financial information for year to 30 June 2001, NRMA Insurance Group Limited commenced operation on 22 July 2000 when it acquired NRMA Insurance Limited and its controlled entities upon demutualisation of NRMA Insurance Limited. The figures used above and in the charts and tables in section 4.2, however, represent the full 12 months of operation, including three weeks prior to acquisition of NRMA Insurance Limited and its controlled entities by NRMA Insurance Group Limited.*

4.2

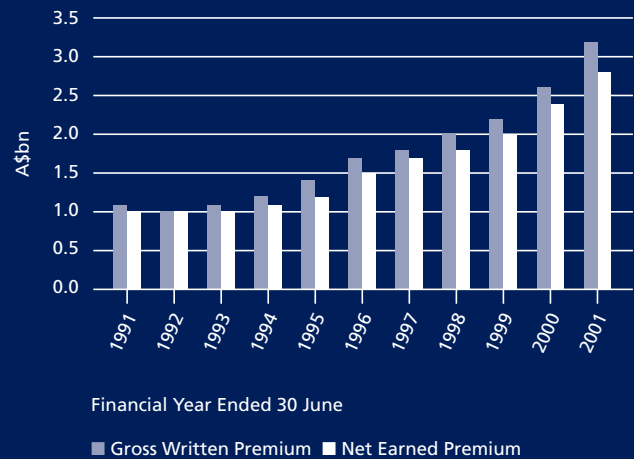
Financial profile and performance

The following graphs provide a historical summary of the Group's financial performance and the growth in the Group's Gross Written Premium and Net Earned Premium since 1991.

Profit/(loss) attributable to shareholders



Gross Written Premium versus Net Earned Premium



Notes Financial information for years 1991 to 2000 relates to the consolidated operations of NRMA Insurance Limited prior to the acquisition by IAG (then known as NRMA Insurance Group Limited).

The reported profit/(loss) of the Group over the last 10 years has been relatively volatile. Whilst there is inherent volatility in general insurance operations, the biggest source of volatility for the Group in the past five years has been 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 has only reported one financial year loss over the last 10 years. That occurred in 1995 following a significant change in experience in the CTP business. Subsequently, legislative amendments were made to stem this experience within the industry.

The Group's Gross Written Premium has almost doubled since 1996. Acquisitions of general insurance businesses have accounted for approximately half of this growth. The balance has come from growth in policies in force, sums insured and premium increases.

IAG's statutory reports since listing and related investor reports are available on the Group's website (www.iag.com.au).

A summary of the Group's most recent financial results is as follows:

Consolidated financial performance	12 months ended 30 June 2001 ¹ \$million	6 months ended 31 December 2001 ¹ \$million
Gross Written Premium	3,198	1,665
Net Earned Premium	2,775	1,568
Net Claims Expense ²	(2,233)	(1,216)
Underwriting Expense	(564)	(315)
Underwriting profit/(loss)	(22)	37
Investment income on Technical Reserves	232	88
Insurance Profit	210	125
Financial services	20	8
Net corporate expenses	(121)	(24)
Amortisation and interest	(39)	(36)
Investment income on shareholder funds	170	(50)
Profit from fee based businesses	15	17
NSW insurance protection tax	-	(10)
Non-recurring items ³	-	33
Profit before income tax	255	63
Income tax benefit/(expense)	(44)	(5)
Profit after income tax	211	58
Outside equity interests	(68)	(9)
Profit attributable to IAG shareholders	143	49

Notes ¹ The 12 month financial information to 30 June 2001 is audited.

The 6 month financial information to 31 December 2001 has been reviewed by the auditors.

² Includes Reinsurance Recoveries (whole of account aggregate stop loss valuation) of \$110 million and net claims from the events of 11 September 2001, major storms and bushfires (\$90 million).

³ Non recurring item - profit on sale of Building Society Limited \$45 million less "Share in the future" legal expenses (\$12 million).

The Group's key operating performance measures relate to its general insurance business. The Group targets a Combined Ratio of less than 100% and reported a Combined Ratio of 97.6% for the six months to 31 December 2001. The Insurance Margin is another key determinant of the Group's performance. This Insurance Margin has grown from 7.6% for the June 2001 financial year to 8.0% for the six months to 31 December 2001.

The Group has declared three dividends since listing and also conducted a share buy-back during 2001 which included a dividend component. All dividends have been fully franked. At 31 December 2001 the Group had a franking balance in excess of \$500 million.

4.3 Capital management strategy

The Group's capital management strategy is aimed at optimising the appropriate mix of capital, based on its business requirements (which are currently in excess of APRA minimum regulatory requirements) and the delivery of sustainable attractive returns to shareholders. As part of this capital management strategy, the issue of the RPS:

- involves IAG issuing a less expensive form of Tier 1 regulatory capital than Ordinary Shares on the basis that IAG achieves its targetted return on equity;
- increases the diversity and flexibility of the Group's capital base;
- is expected to attract new investors gaining exposure to IAG; and
- will generate funds which, at this stage, are intended to be used to finance the Buy-back.

If the Buy-back does not occur, or there are surplus proceeds, the Directors will determine how these funds are to be used.

Tier 1 Capital

IAG, under new guidelines developed by APRA, has applied to be authorised as a non-operating holding company ("NOHC"). This is on the basis of its ownership of a number of APRA licensed entities.

APRA has the ability to impose prudential requirements on entities it regulates. This includes imposing conditions regarding regulatory capital requirements as well as the mix and quality of that capital. APRA has recently released its prudential regulatory requirements of general insurer entities and authorised NOHCs.

In terms of these requirements, APRA requires a general insurer entity to maintain a capital base in excess of APRA's minimum capital requirement. APRA divides a general insurer's capital base into Tier 1 and Tier 2 Capital, and requires that Tier 1 Capital constitutes at least 50% of its capital base. Information about the current and proposed capital base of a NOHC is to be calculated in accordance with the capital adequacy requirements for general insurer entities.

IAG is satisfied that the RPS will constitute Tier 1 Capital. Funding part of this capital base by RPS should be beneficial to IAG as the RPS are a less expensive form of Tier 1 Capital than Ordinary Shares on the basis that IAG achieves its targetted return on equity. Information about the current and proposed capital base of a NOHC is to be calculated in accordance with the capital adequacy requirements for general insurer entities.

However, if APRA subsequently determines that the RPS do not constitute Tier 1 Capital, IAG may decide that a Regulatory Event has occurred. This would enable IAG to convert the RPS into Ordinary Shares or subject to APRA's approval redeem, buy back or cancel the RPS for their Face Value. See section 5 and clause 3.3 of the Terms of Issue.

4.4

Pro-forma financial information

The pro-forma financial information set out below assumes \$300 million is raised through the issue of the RPS and is used to finance the \$300 million Buy-back. It sets out the Group's summarised consolidated balance sheet, both before and after the RPS and proposed Buy-back assuming these transactions had occurred on 31 December 2001.

Group summarised consolidated balance sheet	31/12/2001	Effect of Issue of the RPS	Effect of Buy-back	Combined effect pro-forma 31/12/2001
	\$million	\$million	\$million	\$million
Cash and investments	8,036	294	(303)	8,027
Other assets	2,013	-	-	2,013
Intangibles	643	-	-	643
Total assets	10,692	294	(303)	10,683
Claims outstanding and Unearned Premium	5,285	-	-	5,285
Borrowings and other liabilities	1,990	-	-	1,990
Total liabilities	7,275	-	-	7,275
Net assets	3,417	294	(303)	3,408
Share capital	2,687	-	(171)	2,516
Accumulated (losses)/retained profits	(117)	-	(132)	(249)
Reset Preference Shares	-	294	-	294
Outside equity interests	847	-	-	847
Total equity	3,417	294	(303)	3,408

Notes • *The precise financial impact of the issue of the RPS and the Buy-back on IAG will not be known until the total number of Ordinary Shares are bought back and the Buy-back price and the dividend component of the Buy-back price are determined. The assumptions for the pro-forma financial information are as follows:*

- *The \$300 million Buy-back takes place at a Buy-back price of \$3.18, comprising a capital component of \$1.78 per Ordinary Share and a fully franked dividend component of \$1.40 per Ordinary Share.*
- *In relation to the Buy-back, it is assumed that \$300 million has been bought back. Assuming a Buy-back price of \$3.18, this would result in a reduction in shareholders' equity of \$300 million and a reduction in Ordinary Shares on issue from 1,399,560,924 (as at 31 December 2001) to 1,305,221,301 following the Buy-back. The Ordinary Shares on issue includes 121,550 of Ordinary Shares which were issued on 8 March 2002 as the final issue of shares*

Notes (continued)

relating to the resolution of queries over entitlements to shares on demutualisation of NRMA Insurance Limited in July 2000.

- *The transaction costs of completing the RPS issue and the Buy-back have been incorporated into the pro-forma financial information and are estimated at \$6 million and \$3 million respectively. The proceeds from the RPS issue of \$294 million is net of transaction expenses of \$6 million. The total cost of the Buy-back of \$303 million includes \$3 million of transaction costs.*
- *There is no obligation on IAG to complete the proposed Buy-back.*
- *In order to pay the dividend component of the Buy-back price, IAG may rely on relief dated 14 February 2000, granted by ASIC. This order exempts IAG from compliance with certain sections of the Corporations Act whereby dividends paid by NRMA Insurance Limited to IAG out of pre-acquisition distributable reserves of NRMA Insurance Limited (i.e. the reserves at the time of acquisition of its shares by IAG on demutualisation) can be treated as income by IAG. This order restricts the amount that can be paid and treated as dividend income out of pre-acquisition reserves to 20% of the reserves at acquisition. At 31 December 2001, IAG had utilised \$313 million of the original available total of \$575 million of distributable reserves.*
- *As at 31 December 2001 IAG (the parent entity) had retained profits of \$156 million.*

Combined effect on EPS and return on equity

IAG intends to use the funds raised through the issue of the RPS to finance the Buy-back.

The RPS issue will introduce a new class of equity to the Group, whilst the Buy-back will reduce the Group's Ordinary Share capital.

The precise effect of the Buy-back on earnings per share and return on equity cannot be determined at present because the Buy-back price, the number of Ordinary Shares to be bought back and the Dividend will not be known until after completion of the Buy-back and the issue of the RPS. On a pro-forma basis, had the RPS and the Buy-back occurred on 1 July 2001, it would have had a negative impact on earnings per share and return on equity for the period to 31 December 2001. This is principally due to a low return on equity in that period. However, the proposed Buy-back of Ordinary Shares and the issue of the RPS are expected to improve IAG's earnings per share and return on equity over time.

4.5

Credit ratings

RPS and some subsidiaries of IAG have been rated on an interactive basis by Standard & Poor's Rating Services ("S&P"). At the date of this Prospectus those ratings are as follows:-

Issue Credit Rating (assigned 26 April 2002)

RPS	'A'
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Insurer Financial Strength Ratings (affirmed 26 April 2002)

NRMA Insurance Limited	'AA+'
NRMA Insurance NZ Limited	'AA+'

Long-Term Counterparty Credit Ratings (affirmed 26 April 2002)

NRMA Insurance Limited	'AA+/Negative'
NRMA Insurance NZ Limited	'AA+/Negative'

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.
- A Rating Outlook assesses the potential direction of a Long-Term Counterparty Credit Rating over the intermediate to longer term. 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.

Issues rated 'BBB-' or higher by S&P are considered to be investment grade. RPS having been given an 'A' rating by S&P, are therefore investment grade.

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; and
- a Rating Outlook 'Negative' means a rating may be lowered.

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

S&P 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.

As at the date of this Prospectus, IAG has not approached any other rating agency for a rating of the RPS. Ratings are subject to revision or withdrawal at any time.

5 Investment Risks

Before applying for the RPS investors should consider whether the RPS are a suitable investment for them. Investors should be aware that there are risks associated with an investment in the RPS, many of which are outside the control of IAG. These risks include those set out in this section and other matters referred to in this Prospectus.

The investment risks can be categorised as:

- Risks associated with investing in the RPS; and
- Risks associated with IAG and the insurance industry generally.

5.1

Risks associated with investing in the RPS

Set out below are specific risks associated with an investment in the RPS.

Financial market conditions

The market price of the RPS 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, movements in the market price of Ordinary Shares, and factors which may affect IAG's financial position and earnings.

The market price of the RPS may be more sensitive than Ordinary Shares to changes in interest rates. The RPS could trade on ASX at a price below the Face Value. Ordinary Shares held as a result of any conversion would have the same rights as other Ordinary Shares. Accordingly, their market value will depend on the behaviour of the market price of Ordinary Shares.

Liquidity of RPS

The market on ASX for the RPS may be less liquid than the market on ASX for the Ordinary Shares.

Ability to pay Dividends

A RPS is not a debt instrument, and the Dividends payable are not the same as interest payments.

The payment of a Dividend is subject to the following conditions:

- the Directors, at their discretion, determining a Dividend to be payable;
- IAG having profits, either current or retained, available for the payment of a Dividend;
- the payment of the Dividends having the result that IAG will still comply with APRA's capital adequacy guidelines regarding the Total Capital Adequacy Ratio and the Tier 1 Capital Ratio of the Group as they are applied at that time;
- unless otherwise approved by APRA, the amount of the Dividend not exceeding the profits after tax of the Group for the immediately preceding financial year less the aggregate amount of dividends paid by IAG in the then current financial year (i.e. that there are sufficient current year profits); and
- APRA not objecting to the payment of the Dividend.

There is a risk that one or more of these conditions may not be satisfied and a Dividend is not paid (see section 3.8 for the consequences of this). IAG expects to meet these conditions and pay Dividends on the RPS.

However, like other insurance and financial services groups, due to the Group's volatility of earnings there can be no guarantee that in certain years IAG will have sufficient current year profits to satisfy the requirement in the fourth bullet point above. In this circumstance, IAG may pay a Dividend provided APRA has no objection. See section 5.2 for an outline of the major risks affecting the level of profitability of the Group.

Early Exchange

IAG may Exchange all of the RPS at times other than at a Reset Date, including in response to changes in tax laws, changes in the treatment by APRA of the RPS or on the occurrence of certain takeovers or schemes of arrangement. This could occur at a time prior to the first Reset Date or between Reset Dates and before a Holder wishes to dispose of their RPS. This may have negative consequences for a Holder depending on their individual circumstances.

If this occurs before 8 August 2005 and depending on a Holder's individual circumstances, a Holder may be required by the Board to dispose of some of their Ordinary Shares. See sections 3.13 and 7.5 for details of the 5% shareholding limit in IAG's constitution.

On such Exchange, IAG will either convert the RPS into Ordinary Shares or redeem, buy back or cancel the RPS at their Face Value. The number of Ordinary Shares to be issued on conversion depends on the volume weighted average price of Ordinary Shares during the 20 Business Days period prior to the Exchange Date. This may differ to the market price for Ordinary Shares on the Exchange Date.

If IAG redeems, buys back or cancels the RPS, it will do so at the Face Value. Depending on when a Holder bought the RPS, this could be higher or lower than the price paid for the RPS by the Holder.

Ranking of the RPS

The RPS are not debt instruments. On any winding up of IAG, Holders of the RPS will rank behind creditors of IAG, but in priority to Ordinary Shareholders to the extent of the Face Value of the RPS and any Dividend that is due but unpaid. In the event of a shortfall of funds on a winding up, there is a risk that Holders of the RPS will not receive a full return of capital or any Dividend due and unpaid at that time.

Future issues of securities

IAG may issue other preference shares, including other RPS, which rank equally with the RPS, without the approval of the Holders. In addition, IAG may also issue other securities that rank equally or behind the RPS for dividends or repayment of capital in a winding up of IAG. Such issues could impact the ability of IAG to pay Dividends or the sufficiency of funds on a winding up.

Taxation treatment

A summary of the potential taxation implications for Holders is set out in section 6. This discussion is in general terms and is not intended to provide specific advice in relation to the circumstances of any particular Holder. Accordingly, investors should seek independent advice in relation to their own individual taxation position.

If a change to the taxation system materially increases the costs to IAG of having the RPS on issue, IAG may convert the RPS into Ordinary Shares or redeem, buy back or cancel the RPS for their Face Value. See clause 3.3 of the Terms of Issue. Therefore, the exact period for which Holders will be entitled to the benefit of the rights attaching to the RPS is unknown.

Credit ratings

As a result of changes in IAG's operating performance or capital structure, there is a risk that the credit rating of the RPS is downgraded. This could affect the market price and liquidity of the RPS.

Regulatory classification risk

IAG is satisfied that the RPS constitute Tier 1 Capital. However, if APRA subsequently determines that the RPS do not constitute Tier 1 Capital, IAG may decide that a Regulatory Event has occurred. This would enable IAG to convert the RPS into Ordinary Shares or subject to APRA's approval redeem, buy back or cancel the RPS for their Face Value. See Clause 3.3 of the Terms of Issue.

5.2

Risks associated with IAG

Set out below are risks associated with IAG and the insurance industry generally. These are relevant to an investment in the RPS as they affect the level and volatility of the profitability of the Group and therefore its ability to meet its obligations, including its ability to pay Dividends. In addition to other information set out in this Prospectus, the following risk factors should be carefully considered in evaluating IAG and its ability to meet its obligations under the RPS.

Economic conditions

The Group is the largest general insurer in Australia and New Zealand (as measured by Gross Written Premium in the respective countries) and holds a substantial diversified investments portfolio. Its financial performance is affected by changes in regional and global economic conditions. In addition, both premium and claim trends in general insurance markets tend to be cyclical in nature and these cycles may not be synchronised. Also, investment market cycles do not necessarily align with premium and claims cycles. The interaction of these factors will influence the level and volatility of profitability of the Group and therefore may affect IAG's ability to pay Dividends.

Investment performance

Investment performance can significantly affect the Group's profits and financial position. It is the Group's policy that a substantial proportion of its shareholder funds be invested in equities. As at 31 December 2001, approximately 26% of the Group's equity portfolio was invested overseas. As at 30 April 2002 the Group did not have any external foreign exchange hedging arrangements in place, in respect of the overseas equity portfolio.

Catastrophes and other events

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, fires, 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 coverage will prove adequate. Although IAG believes it does not have significant direct claims risk exposure to terrorist attacks, such events may affect the Group through their impact on investment markets as well as any general economic impacts.

Reinsurance

Outwards Reinsurance

The Group enters into a significant number of Reinsurance treaties to limit its risk exposure to any one event or the occurrence of specific events. Though the Group seeks to accurately quantify all the risks it is exposed to, there can be no assurance that the Group's Reinsurance coverage will prove adequate. Further Reinsurance might be unavailable at adequate rates and/or levels in the future. The Group is also exposed to the risk that its reinsurers default on their obligation to pay valid claims. This exposure may be more acute after the events of 11 September 2001.

Inwards Reinsurance run-off

The Group ceased to underwrite new Inwards Reinsurance in January 2001. Most contracts expired at the end of 2001 or have been commuted, such that the number of live contracts and the amount of in-force premium are now less than 10 and \$10 million respectively. All live contracts expire on or before 30 June 2002. The ultimate exposure of IAG to Inwards Reinsurance claims will remain uncertain for a number of years, given the nature of the business.

While IAG's claims reserving for the portfolio is believed to be adequate, no assurance can be given in respect of the adequacy of these reserves and IAG's resulting protection against further exposure to losses arising from the Inwards Reinsurance portfolio.

Claims provisioning

The Group maintains provisions to cover its actuarially estimated liabilities with respect to reported, incurred but not reported, and incurred but not enough reported claims for losses, including claims administration expenses.

Although the Group remains committed to maintaining reserves at an estimated 90% Probability of Sufficiency across all business classes, there can be no absolute assurance that ultimate losses will not materially exceed the Group's provisions and will not have a material adverse effect on the Group's operating results and financial position.

Litigation and changes in court awards

All insurance companies are exposed to litigation relating to policies underwritten by them. The Group is currently involved in a number of such legal proceedings, certain of which involve claims for substantial damages and other relief. In addition, there can be no assurance that the courts will not expand the basis upon which an insurance company may suffer liability in connection with policies written or that the basis for calculation of damages will not change. Both of these possibilities may have a material adverse effect on IAG's results.

Business and geographic concentration

The Group's operations are significantly concentrated on both a geographic and a product basis. There is significant concentration of the Group's business in private motor and CTP insurance. In addition, the majority of the Group's business is underwritten in New South Wales and Australian Capital Territory. Although a core component of the Group's strategy is to diversify its earnings on both a product and regional basis, there can be no assurance that this strategy will be successful.

Operational risk

Whilst IAG 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 outsourcing arrangements; business continuity planning; legal risk; key person risk; and external events.

Regulation and government policy

In all markets where IAG operates, it is subject to substantial government regulation, regulatory supervision and taxes. Changes in these can adversely affect earnings, as well as vary the level of capital that is required to support insurance and related businesses.

The above summary is not exhaustive. Investors should read this Prospectus in its entirety and consult their stockbroker, accountant or other professional adviser before deciding whether to apply for the RPS.

6 Taxation Implications

IAG

Reset Preference Shares

Reset Preference

Following is a summary of the principal Australian income taxation, goods and services tax and stamp duty consequences of acquiring, holding and disposing of the RPS. The summary is based on Australian revenue law, public taxation rulings and determinations and administrative practice current as at the date of this Prospectus.

This discussion relates only to Holders who are residents of Australia for Australian taxation law purposes.

The following comments concerning the taxation position of Holders are necessarily general in nature and investors should seek and rely on their own taxation advice. The taxation consequences associated with an investment in the RPS will depend upon the particular circumstances of that person. Investors should not rely on this explanatory outline for their own taxation purposes.

Receipt of Dividends

The RPS will be characterised as “equity interests” for income tax purposes. Accordingly, Dividends paid on the RPS will be “frankable”. Such Dividends may be franked, unfranked or only partly franked. The amount of the cash Dividend payable will be subject to adjustment in accordance with formulae that take into account the level of franking credits attached and changes in the corporate tax rate, so that Holders receive a particular gross yield for each Dividend paid.

A Holder will be required to include in their assessable income the amount of any Dividend (including any Optional Dividend) that they receive on their RPS. To the extent that a Dividend is franked, a Holder who is an individual will be required to include in their assessable income the franking credits attached to that Dividend. Subject to the comments below regarding “qualified persons”, a Holder who is an individual may be entitled to a rebate of tax based on the franking credits attached to a Dividend, and to a refund of excess franking credits.

If the Holder is a company, the intercorporate dividend rebate may be available to the extent that the Dividend is franked and subject to the comments below regarding “qualified persons”.

A Holder must be a “qualified person” regarding a Dividend paid on their RPS before they will be entitled to the benefit of the tax rebates that flow from receiving franked dividends. A Holder will be a “qualified person” in respect of their RPS if they have held their RPS at risk for at least 45 days. A Holder will also be a qualified person if they have previously made an election with the Commissioner of Taxation to have a franking rebate ceiling applied to them. Holders are strongly recommended to seek their own tax advice if they are uncertain as to how the “qualified person” rules might apply to their circumstances.

Investors in the RPS will be provided with the opportunity to disclose their TFN. Although disclosure of their TFN is not compulsory, Holders should be aware that, unless they are exempt from the TFN provisions, failure to disclose their TFN may result in an amount of tax being deducted from the Dividend payments at the top marginal tax rate (plus Medicare levy). Alternatively, where a Holder holds their RPS in the course or furtherance of an enterprise carried on by it, the Holder may quote their ABN.

Conversion of the RPS

Each RPS will be a “CGT asset” under the capital gains provisions. The Terms of Issue provide that conversion of a RPS constitutes a variation of the status of, and rights attaching to, the RPS so that it becomes an Ordinary Share. There is no cancellation, redemption or termination of the RPS or the issue, allotment or creation of a new share in that circumstance. Accordingly, conversion of a RPS to an Ordinary Share should not result in a CGT event happening to the Holder.

In accordance with the Terms of Issue, each Holder will also be allotted an additional number of Ordinary Shares upon conversion. The additional Ordinary Shares will be issued for no consideration. For capital gains purposes in determining the cost base to the Holder of the Ordinary Shares the Holder now holds, the cost base of the original RPS will be spread across both the Ordinary Share into which it is converted and these additional Ordinary Shares. The Ordinary Shares will be taken to have been acquired by the Holder at the time that the RPS were acquired by the Holder.

Similarly, in determining the cost of the Ordinary Shares to the Holder where the Holder does not hold the RPS as a capital asset (that is, they hold the RPS in the course of a business of trading or dealing in such securities), the cost of the original RPS to the Holder should be spread across the Ordinary Share into which it converts and the additional Ordinary Shares.

Disposal of the RPS (prior to conversion)

A sale or other disposal of a RPS by the Holder will result in a CGT event happening to the Holder. A capital gain would arise to the extent of any excess of capital proceeds received from the sale or disposal of the RPS over the cost base of the RPS to the Holder. The cost base of the RPS would include the amount paid by the Holder to acquire the RPS (whether upon issue by IAG or purchase from a previous Holder) as well as the costs associated with the acquisition and disposal of the RPS (such as brokerage) incurred by the Holder.

If the Holder is an individual or a trust (other than a trust that is a complying superannuation fund) and has held the RPS for at least 12 months prior to disposing of it, the Holder will only be required to include one-half of their capital gain (after reduction by any available capital losses) in their assessable income. If the Holder is a complying superannuation fund and has held the RPS for at least 12 months, only two-thirds of their capital gain is included in assessable income. Conversely, a capital loss could arise where the capital proceeds are less than the cost base of the RPS.

Where the Holder does not hold the RPS as a capital asset, the excess of the proceeds of sale or disposal over the cost of the RPS to the Holder will constitute assessable income on ordinary concepts. A CGT event will still happen to the Holder, but the amount of any capital gain arising to the Holder on the disposal of a RPS will be reduced by the amount of such assessable income. Where the proceeds of sale or disposal are less than the cost to the Holder of the RPS, the Holder should incur a deductible loss. However, the Holder cannot obtain both a deductible loss and a capital loss in respect of the same disposal.

Redemption, buying back or cancellation of the RPS

A CGT event will happen to a Holder if IAG redeems, buys back or cancels a RPS under the Terms of Issue. The comments above regarding the disposal of the RPS prior to conversion also apply to the redemption, cancellation or buying back of the RPS. As a Holder will receive the Face Value if IAG redeems, buys back or cancels a RPS, it is unlikely that a Holder who acquires the RPS upon issue by IAG (as opposed to a Holder who acquires the RPS from a previous Holder) would incur a capital gain or loss in that circumstance.

Similarly, where a Holder who acquires the RPS upon issue by IAG does not hold the RPS as a capital asset, it is unlikely that they would derive an amount of assessable income on ordinary concepts or incur a deductible loss if IAG redeems, buys back or cancels a RPS.

Stamp duty

IAG proposes to apply to ASX for official quotation of the RPS. Accordingly, while the RPS are quoted on the ASX, stamp duty will not be payable on a transfer of the RPS.

GST

The transfer of an equity security (for example, a share) is treated as a "financial supply" and is therefore input taxed. GST is not payable on an input taxed supply. Accordingly, the transfer of a RPS will be a financial supply and no GST will be payable by the transferring Holder. Further, the conversion of the RPS to an Ordinary Share will not constitute a taxable supply and no GST will be payable on this event.

7

Additional Information

7.1 **Terms of Issue**

The rights attaching to the RPS will be governed by:

- the Terms of Issue of the RPS set out in Appendix A; and
- IAG's constitution, which sets out the rights attaching to Ordinary Shares into which the RPS may be converted in certain circumstances.

IAG is authorised to issue the RPS as it passed a special resolution on 22 June 2000 authorising the issue of non-cumulative preference shares.

7.2 **IAG – information, disclosure & availability**

IAG (formerly known as NRMA Insurance Group Limited) was admitted to the official list of ASX on 8 August 2000. IAG is a disclosing entity under the Corporations Act and, as such, is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules.

IAG is required to notify ASX of information about specified events and matters as they arise for the purposes of ASX making that information available to the stock market conducted by ASX. 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 IAG's shares. That information is available on the public file at ASX.

7.3 **Availability of documents lodged with ASIC**


IAG is required to prepare and lodge with ASIC both yearly and half-yearly financial statements accompanied by a Directors' 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.

7.4 **Other documents**

IAG will provide a copy of any of the following documents free of charge to any person who requests a copy prior to the Closing Date:

- the financial statements of IAG for the year ended 30 June 2001 (being the most recent audited annual financial reports lodged with ASIC before the issue of this Prospectus);
- the financial statements of IAG for the half year ended 31 December 2001 (being the most recent reviewed half-yearly financial reports lodged with ASIC before the issue of this Prospectus);

A decorative graphic at the top of the page features three large, stylized lowercase letters: 'r', 'p', and 's'. Each letter is contained within a thin, light blue rectangular border. The letters are positioned horizontally across the top of the page, with 'r' on the left, 'p' in the middle, and 's' on the right. The background behind the letters is a light blue gradient.

- 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 audited financial statements for the year ended 30 June 2001 and before lodgement of this Prospectus with ASIC;
- IAG's constitution; and
- 22 June 2000 special resolution. See section 7.1.

7.5

Summary of rights attaching to Ordinary Shares

Any Ordinary Shares resulting or issued on conversion of the RPS will rank equally with existing fully paid Ordinary Shares then 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 7.4 for information on how to obtain a copy of IAG's constitution.

Some key rights attaching to Ordinary Shares are:

Dividend entitlement

Payment of dividends on shares is subject to the Directors determining a dividend to be payable. Directors may only declare a dividend if IAG complies at the time of declaration with APRA's then prevailing prudential standards and there being 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 holders of the RPS), and subject to the terms of any issue of shares to the contrary, all fully paid shares on which any dividend is declared or paid are entitled to participate in the dividend in proportion to the number of shares held, and partly paid shares are entitled to participate pro-rata according to the amount paid on the shares.

Voting rights

At any general meeting of IAG, every shareholder has one vote on a show of hands and one vote for each fully paid share on a poll.

Transferability of Ordinary Shares

While the ordinary shares in IAG are quoted on ASX, shareholders will generally be able to sell or transfer shares without restriction. This is subject to the limitations on shareholdings described in the shareholder limitations and ownership restrictions sections below and the Directors' ability to decline to register a transfer in certain limited circumstances.

Shareholder limitations

General 5% limit

For a period of five years from the listing of IAG (which took place on 8 August 2000), there is a limitation on any shareholder having a relevant interest in more than 5% of the “voting shares” in IAG, unless the relevant provisions of IAG’s constitution are amended by special resolution of shareholders. This shareholding limitation does not apply to:

- IAG or a subsidiary of IAG, except that any votes cast or shares held by IAG (or a subsidiary) above the limitation will be disregarded;
- a person in respect of whom the Board has passed a resolution (with the approval of an ordinary resolution of shareholders) which stipulates a maximum number of shares up to 15% of the total number of shares, in which case the limitation will be that maximum number; and
- any person excluded from the operation of the prohibition by special resolution of shareholders (where that person and their associates do not vote on the resolution).

The Board may give a notice to any person who has a relevant interest in, or acquires a relevant interest in, shares that exceed the prescribed limit (“default shares”), that:

- specifies the number of default shares; and
- requires the disposal of the default shares within the period specified in the notice.

“Relevant interest” in this context has the same meaning as for the purposes of Chapter 6 of the Corporations Act. “Voting Shares” has the meaning given to that term in the Corporations Act.

If an allotment and issue of shares arises from the exercise, conversion or paying up of a quoted security or a quoted right might result in a contravention of the notice given to the holder of default shares, IAG may allot and issue the shares to a nominee selected by it, on terms that require the nominee to arrange for the disposal of the shares for the benefit of the person to whom the shares would otherwise be issued.

Entitlement of Ordinary Shares on winding up

Holders of Ordinary Shares are entitled to share in any surplus assets on a winding up in proportion to the amount of capital paid up. The constitution also gives shareholders the right to approve by special resolution various alternative ways in which surplus assets may be dealt with by the liquidator.

7.6 Ownership restrictions

In addition to the restrictions contained in IAG's constitution, ownership of shares in IAG is restricted by the Financial Sector (Shareholdings) Act 1998 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. A shareholder may apply to the Australian Treasurer to extend its ownership beyond 15%, but approval depends on the Treasurer being satisfied that a holding by that person of more than 15% is in the national interest.

7.7 Summary of Offer Management Agreement

IAG has agreed to appoint Macquarie as Lead Manager and sole bookrunner for the Offer. Upon IAG and the Lead Manager agreeing the dividend rate and the allocations to institutional investors and Participating Brokers under the Bookbuild, the parties have agreed to enter into an offer management agreement ("**Agreement**"). Under the Agreement, the Lead Manager agrees to provide IAG with settlement credit support in relation to the allocation to those institutions and Participating Brokers.

The material terms of the Agreement are summarised below:

Fees

The Lead Manager will be paid the following fees (exclusive of GST, if any) immediately after the date of the allotment of the RPS:

- a management fee of 0.75% of the total proceeds of the Offer;
- a selling fee of an amount equal to:
 - 0.75% of the amount of the total proceeds of the Offer attributable to the allocations to the general public and institutional investors; and
 - 1% of the amount of the total proceeds of the Offer attributable to the allocations to Participating Brokers;

Within 30 days after the date of the allotment of the RPS, IAG will pay the Lead Manager such performance fee, (if any), up to a maximum of 0.25% of the total proceeds of the Offer, that IAG in its absolute discretion determines following consultation with the Lead Manager about the results of the Offer.

Expenses

IAG will pay and will indemnify and keep indemnified the Lead Manager against and in relation to all costs and expenses of and incidental to the Offer and the issue of RPS allocated under the Offer.

Termination by Lead Manager

The Lead Manager may without cost or liability to itself by notice in writing given upon or at any time prior to allotment of all the RPS to institutional investors and Participating Brokers determined under the Bookbuild, terminate its obligations under the Offer Management Agreement if:

- (a) ASX has not consented to the official quotation of the RPS prior to the Closing Date or having consented, has subsequently withdrawn, withheld or qualified its consent; or
- (b) the Lead Manager, having elected not to exercise its rights to terminate its obligations under the Agreement as a result of an occurrence described in paragraph (c)(viii), forms the view on reasonable grounds that a supplementary or replacement prospectus should be lodged with ASIC for any of the reasons referred to in section 719 of the Corporations Act and IAG fails to lodge a supplementary or replacement prospectus in such form and content and within such time as the Lead Manager may reasonably require; or
- (c) any of the following events occurs, subject to paragraph (d):
 - (i) default by IAG under the Agreement or any representation or warranty given by IAG in the Agreement is or becomes untrue or incorrect or a contravention by IAG or one of its subsidiaries of any provision of its constitution, the Corporations Act or any other applicable legislation or any requirement of ASIC or ASX;
 - (ii) IAG being prevented from allotting the RPS within the time required by the Listing Rules, by ASX, any statute, regulation or order of a court of competent jurisdiction or by any governmental or semi-governmental agency or authority or any authorisation which is material to anything referred to in this Prospectus is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Lead Manager;
 - (iii) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any law or prospective law or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;

- (iv) any adverse change or any development including a prospective adverse change after the date of the Agreement in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations or Board or senior management of IAG or any of its subsidiaries;
- (v) except for actions by IAG in relation to a corporate restructure (which does not result in any adverse change of the kind described in paragraph (iv) above), or in relation to an employee share plan, a prescribed occurrence as set out in sections 652C(1) and (2) of the Corporations Act (other than as disclosed in the Prospectus) or IAG or any of its subsidiaries passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Lead Manager or IAG or any of its subsidiaries alters its capital structure in any manner not contemplated by the Prospectus or the Buy-back or an event of insolvency occurs in respect of a IAG or any of its subsidiaries or a judgment in an amount exceeding \$10,000,000 is obtained against IAG or any of its subsidiaries and is not set aside or satisfied within 7 days or a director of IAG or any of its subsidiaries is charged with an indictable offence;
- (vi) it transpires that the Prospectus does not contain all the information required by sections 713 and 716 of the Corporations Act or it transpires that there is a statement in the Prospectus that is misleading or deceptive or likely to mislead or deceive, or that there is an omission from the Prospectus (having regard to the Corporations Act) or if any statement in the Prospectus becomes misleading or deceptive or likely to mislead or deceive or if the issue of the Prospectus is or becomes misleading or deceptive or likely to mislead or deceive or it transpires that section 713 of the Corporations Act does not apply by virtue of ASIC Class Order 00/195 to the Prospectus or it transpires that any of the due diligence or verification materials in relation to the Prospectus were false, misleading or deceptive or that there was an omission from them or any information supplied at any time by the IAG or any person on its behalf to the Lead Manager in respect of any aspect of the Offer or the Issue or the affairs of IAG or any of its subsidiaries is or becomes misleading or deceptive or likely to mislead or deceive;

- (vii) any person (other than the Lead Manager) who has previously consented to the inclusion of its, his or her name in the Prospectus or to be named in the Prospectus, withdraws that consent or an application is made by ASIC for an order under section 1324B of the Corporations Act in relation to the Prospectus, the date on which the Lead Manager must pay IAG the amount determined under the settlement credit support provisions of this Agreement has arrived, and that application has not been dismissed or withdrawn or ASIC gives notice of its intention to hold a hearing under section 739 of the Corporations Act in relation to the Prospectus to determine if it should make a stop order in relation to the Prospectus or the ASIC makes an interim or final stop order in relation to the Prospectus under section 739 of the Corporations Act;
 - (viii) a "new circumstance" as referred to in section 719(1) of the Corporations Act arises that is materially adverse from the point of view of an investor; or
 - (ix) without the prior approval of the Lead Manager a public statement is made by IAG in relation to the Offer, the issue of the RPS pursuant to the Offer or the Prospectus.
- (d) The events listed in paragraph (c) do not entitle the Lead Manager to exercise its rights to terminate its obligations under the Agreement unless, in the reasonable opinion of the Lead Manager reached in good faith, it has or is likely to have, or those events together have or are likely to have, a material adverse effect on the outcome of the Offer or on the subsequent market for the RPS (including, without limitation, matters likely to have a material adverse effect on a decision of an investor to invest in RPS) or could give rise to a liability of the Lead Manager under the Corporations Act.
- (e) The exercise by the Lead Manager of any of the termination rights set out above does not prejudice any right the Lead Manager may have in relation to fees and expenses and recovery of GST as set out in the Agreement or any rights the Lead Manager may have to seek damages for loss caused to the Lead Manager as a result of a breach by IAG of any warranties, representations or obligations under the Agreement.

7.8

Consents

Each of the parties referred to as (“Consenting Parties”) in this section 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 b) and c) 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 a statement or report included in this Prospectus with the consent of that Consenting Party; and
- 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.

Consenting Parties

- ABN AMRO Morgans Limited;
- ASX Perpetual Registrars Limited;
- Commonwealth Securities Limited;
- JBWere Limited;
- KPMG;
- Macquarie Equity Capital Markets Limited;
- Mallesons Stephen Jaques;
- Standard & Poor’s Ratings Services.

7.9

Interests of advisers

The following disclosures of interests and fees are made in relation to advisers' roles in connection with IAG, the RPS and the proposed Buy-back.

KPMG have acted as the auditors for IAG and performed professional services to assist management in its due diligence inquiries on financial matters. IAG estimates that it will pay approximately \$220,000 (excluding disbursements and GST) to KPMG. Further amounts may be paid to KPMG in accordance with its normal time-based charges.

Mallesons Stephen Jaques have acted as solicitors to IAG in relation to the Offer and have performed work in relation to preparing the due diligence and verification program, performing due diligence required on legal matters and tax advice. In respect of this work, IAG estimates that it will pay approximately \$375,000 (excluding disbursements and GST) to Mallesons Stephen Jaques. Mallesons Stephen Jaques is also acting as solicitors to IAG in connection with its proposed off-market Buy-back of Ordinary Shares. Further amounts may be paid to Mallesons Stephen Jaques in accordance with its normal time-based charges.

Macquarie Equity Capital Markets Limited have acted as the Lead Manager to the Offer, in respect of which they will receive the fees outlined in section 7.7 above.

Macquarie Equity Capital Markets Limited is also acting as Financial Adviser to IAG in connection with its proposed off-market Buy-back of Ordinary Shares.

The following disclosures of interests and fees are made in relation to advisers' roles with the demutualisation and subsequent listing of IAG in August 2000:

- KPMG acted as investigating accountants and provided related services and advice and received a fee of \$2.7million.
- Mallesons Stephen Jaques acted as legal adviser to IAG and received a fee of \$3.26million.
- Macquarie Bank Limited acted as Joint Global Co-ordinator to the offering of NRMA Insurance Group Limited Ordinary Shares and received management and selling fees totalling \$5.68million.

Except as set out above

- no person named in this Prospectus is performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- nor the Lead Manager to this Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the 2 years before lodgement of this Prospectus with ASIC, any interest in:

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

nor has anyone paid or agreed to pay or given or agreed to give any benefit to such persons in connection with the formation or promotion of IAG or with the Offer.

7.10

Directors' interests

Except as set out below, no Director or proposed Director of IAG, nor any firm in which any Director or proposed Director is a partner, has, or has had in the 2 years before lodgement of this Prospectus with ASIC, any interest in:

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

Except as set out below, 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 or proposed Director of IAG, nor any firm in which any Director or proposed Director is a partner, either to induce them to become, or to qualify them as, a Director or otherwise for services provided by them in connection with the formation or promotion of IAG or with the Offer.

Ms Anne Keating is a director of Macquarie Leisure Management Limited (a wholly owned subsidiary of Macquarie Bank Limited) and is a member of the advisory council of ABN AMRO Australia.

Mr Rowan Ross, a Director of IAG since 25 July 2000, is an executive director of Macquarie Bank Limited which received fees in the demutualisation and subsequent listing of IAG and the proposed fees in the Offer and Buy-back as disclosed above.

The table below sets out the interest in IAG shares of the following Directors.

Name	Interest in shares at the time of demutualisation in 2000	Interest in shares as at 9 April 2002
James Strong*	-	61,157
Michael Hawker*	1,273	100,736**
John Astbury	-	15,857
Maree Callaghan	1,143	11,250
Geoffrey Cousins	-	157,857
Mary Easson	804	8,842
Dominique Fisher	1,017	21,214
Neil Hamilton***	184	18,498
Anne Keating	528	8,566
Rowan Ross	474	64,538

* not a director at the time of listing. NRMA Insurance Limited demutualised on 22 July 2000.

** Michael Hawker also holds 1,000,000 options pursuant to IAG's Performance Share Rights plan.

*** Neil Hamilton sold his shares in the share sale facility at the time of listing and donated the proceeds to charity.

7.11

ASX waivers

ASX has granted IAG the following waivers:

- Listing Rule 7.1.4 has been waived to the extent necessary to allow IAG, in calculating the number of the RPS it may issue in accordance with Listing Rule 7.1, to notionally convert the RPS at the market price of IAG's Ordinary Shares at the time IAG announces its intention to make the issue of the RPS; and
- Listing Rule 7.40 has been waived to the effect that hard copies of the Prospectus may be despatched other than as prescribed in Appendix 7A of the Listing Rules.

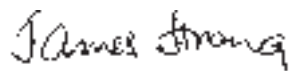
Approval has also been granted to IAG to allow RPS, for a short time following the allotment and quotation of the RPS, to trade on a deferred settlement trading basis.

7.12 **ASIC relief**

ASIC has granted IAG a declaration under section 741(1) of the Corporations Act to allow IAG to lodge this Prospectus with ASIC without the inclusion of the Dividend Rate, the Margin and the Market Rate and to include those rates in the printed copy of this Prospectus.

7.13 **Consents to lodgement**

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



James Strong
Chairman
Insurance Australia Group Limited

Appendix A: Terms of Issue

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

Terms of the Reset Preference Shares of the Company

1

Face Value

The face value of each Reset Preference Share ("RPS") will be \$100 ("Face Value").

2

Dividends

2.1

Dividends

- (a) Subject to these terms, the Holder on the relevant Record Date of each RPS is entitled to receive on each relevant Dividend Payment Date a dividend ("**Dividend**") calculated in accordance with the following formula:

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

where:

N is the number of days from (and including) the date of allotment of the RPS or the preceding Dividend Payment Date (whichever is the later) until (but not including) the relevant Dividend Payment Date;

Dividend Rate is calculated in accordance with the following formula:
(Market Rate + Margin) x (1-T);

where:

Market Rate expressed as a percentage per annum:

- (a) for the period to the first Reset Date, is the rate calculated as the average of the mid-point of the quoted average 5 year swap reference rates at three pre-determined times on Reuters page CMBE (or any page which replaces that page) on the date the Company announces the Margin determined under the Bookbuild; and
(b) for the period between succeeding Reset Dates, is as reset by the Company in accordance with clause 4;

Margin expressed as a percentage per annum:

- (a) for the period to the first Reset Date, is the rate determined under the Bookbuild ("**Initial Margin**"); and
(b) for the period between succeeding Reset Dates, is as reset by the Company in accordance with clause 4; and

T means the Australian corporate tax rate applicable at the relevant Reset Date, expressed as a decimal, and which for the period to the first Reset Date will be taken to be 0.30.

- (b) If on a Dividend Payment Date, the Australian corporate tax rate applicable to the franking account of the Company from which the Dividend will be franked (**Ti**) differs from the Australian corporate tax rate applicable at the immediately preceding Reset Date (**T**) the Dividend will be adjusted in accordance with the following formula (rounded to the nearest four decimal places):

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

where:

- Dividend** is the amount calculated under clause 2.1(a);
Ti is the Australian corporate tax rate applicable to the franking account of the Company from which the Dividend will be franked, expressed as a decimal; and
T means the Australian corporate tax rate applicable at the immediately preceding Reset Date, expressed as a decimal, and which for the period to the first Reset Date will be taken to be 0.30.

- (c) If any Dividend is not franked to 100% under Part IIIAA of the Tax Act (or any provisions that revise or replace that Part), the Dividend will be adjusted in accordance with the following formula:

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

where:

- D** is the Dividend calculated under clause 2.1(a) and if relevant clause 2.1(b);
Ti has the same meaning as in clause 2.1(b); and
f is the applicable Franking Rate.

2.2 — Payment of Dividend

The payment of a Dividend (including an Optional Dividend) is subject to:

- the Directors, at their discretion, determining the Dividend to be payable;
- the Company having profits available for the payment of a Dividend;
- such payment not resulting in the Total Capital Adequacy Ratio or the Tier 1 Capital Ratio of the Group (on a consolidated basis) not complying with APRA's then current capital adequacy guidelines as they are applied to the Group at the time;
- except as permitted under clause 2.3, the amount of the Dividend not exceeding the profits after tax of the Group (on a consolidated basis) for the immediately preceding financial year less the aggregate amount of dividends paid by the Company in the current financial year on the Record Date for the Dividend; and
- APRA not otherwise objecting to the payment of the Dividend.

The Directors, at their discretion, may determine Optional Dividends (as defined in clause 2.9(d)) to be payable, subject to this clause 2.2.

2.3 — Reinvestment of Dividends

Where the conditions of clause 2.2 are satisfied with the sole exception of clause 2.2(d), the Directors may determine that a Dividend is payable to each Holder and the Directors may determine that the Holders will participate in the Company's DRP in respect of that Dividend and in such event, participation by the Holders in the DRP will be on the terms of that DRP.

2.4 — Non-Cumulative Dividends

If and to the extent that all or any part of a Dividend is not paid because of the provisions of clause 2.2, the Company has no liability to pay such Dividend and, notwithstanding the Directors' discretion to pay an Optional Dividend under clause 2.9, the Holder has no claim in respect of such non-payment.

2.5 — **Calculation of Dividends**

All calculations of Dividends will be rounded to four decimal places. For the purposes of making any Dividend payment in respect of a Holder's aggregate holding of RPS, any fraction of a cent will be disregarded.

2.6 — **Dividend Payment Dates**

Subject to this clause 2, Dividends will be payable on the RPS in arrears on:

- (a) 15 December 2002 and thereafter on each 15 June and 15 December until the RPS are converted, redeemed, bought-back or cancelled or in the case of a change in the terms of the RPS pursuant to clause 4 in accordance with such change; and
- (b) the Exchange Date.

2.7 — **Record Dates**

A Dividend is only payable to those persons registered as Holders on the Record Date for that Dividend. An Optional Dividend is only payable to those persons registered as Holders on the Record Date in respect of the Optional Dividend.

2.8 — **Deductions**

The Company may deduct from any Dividend payable to a Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. If any such deduction has been made and the amount of the deduction accounted for by the Company to the relevant revenue authority and the balance of the amount payable has been paid to the Holder concerned, then the full amount payable to such Holder shall be deemed to have been duly paid and satisfied by the Company. The Company shall pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring penalty under the applicable law and shall, if required by any Holder, deliver to that Holder the relevant receipt issued by the revenue authority without delay after it is received by the Company.

2.9 — **Restrictions in case of non-payment**

If, for any reason, a Dividend has not been paid in full within 20 Business Days after the relevant Dividend Payment Date, the Company must not without approval of a special resolution passed at a separate meeting of Holders:

- (a) declare or pay a dividend or make any distribution on any share capital over which the RPS rank in priority for participation in profits; or
- (b) redeem, reduce, cancel or acquire for any consideration any share capital of the Company (other than a RPS),

unless:

- (c) two consecutive Dividends stated to be payable on the RPS thereafter have been paid in full (or an equivalent amount of Dividends if the frequency of payment is other than semi-annual); or
- (d) an optional dividend ("**Optional Dividend**") has been paid to the Holders equal to the unpaid amount (if any) of the two immediately preceding Dividends prior to the date of payment of the Optional Dividend (or equivalent Dividends if the frequency of payment is other than semi-annual); or
- (e) all RPS have been converted, redeemed, bought back or cancelled.

Exchange

Exchange by the Holder

- (a) Holders may deliver:
 - (i) a Holder Exchange Notice to the Company no later than 35 Business Days prior to a Reset Date in respect of some or all of their RPS; or
 - (ii) a Holder (Event) Exchange Notice to the Company pursuant to clause 3.2 in respect of all (but not some only) of their RPS.
- (b) Once a Holder has given an Exchange Notice under clause 3.1(a) that Holder must not deal with, transfer, dispose of or otherwise encumber the RPS the subject of the Exchange Notice.
- (c) On receipt of a valid Exchange Notice delivered by a Holder under clause 3.1(a) the Company must, at its option do one of the following in relation to the RPS the subject of the Exchange Notice:
 - (i) convert the RPS into Ordinary Shares in accordance with clauses 3.5 and 3.6; or
 - (ii) procure the acquisition of the RPS by a third party for their Face Value and send the proceeds to the Holder on the relevant Exchange Date; or
 - (iii) redeem, buy back or cancel the RPS for their Face Value on the relevant Exchange Date and send the proceeds to the Holder on the relevant Exchange Date.

The Company may only apply the mechanism in clause 3.1(c)(iii) if APRA has given its prior approval to such mechanism being applied.

No later than 21 Business Days prior to the relevant Exchange Date the Company must give notice to Holders who have delivered an Exchange Notice of the RPS of which mechanism of Exchange referred to in this clause 3.1(c) it has chosen.

If the Company does not notify the relevant Holders in accordance with this clause, then clause 3.1(c)(i) will apply.

- (d) The form of Holder Exchange Notice and Holder (Event) Exchange Notice which may be used by Holders under clause 3.1 will be made available by the Company upon request.
- (e) If a Holder delivers an Exchange Notice in accordance with clause 3.1(a) the Exchange Date is:
 - (i) if the Holder Exchange Notice is delivered pursuant to clause 3.1(a)(i), the Reset Date immediately following the delivery of the Holder Exchange Notice; or
 - (ii) if the Holder (Event) Exchange Notice is delivered pursuant to clause 3.1(a)(ii), the last Business Day of the month following the month in which the Company receives the Holder (Event) Exchange Notice unless the Company determines an earlier Exchange Date having regard to the best interests of the Holders (collectively) and the relevant event.

Trigger Event

- (a) If a Trigger Event occurs, a Holder may deliver a Holder (Event) Exchange Notice to the Company in respect of all (but not some only) of their RPS at any time after the Trigger Event occurs but no later than 35 Business Days after any publication of a notice under clause 3.2(c).
- (b) A Trigger Event means the occurrence of any of the following events:
 - (i) a Dividend is not paid in full within 20 Business Days after a Dividend Payment Date excluding where non-payment is due to one or more of the conditions in clause 2.2 not being satisfied;
 - (ii) the Company resolves in general meeting to be wound up;
 - (iii) a provisional liquidator is appointed to the Company;
 - (iv) a court makes an order to wind-up the Company (other than to effect a solvent re-construction);
 - (v) an administrator of the Company is appointed under sections 436A, 436B or 436C of the Corporations Act;
 - (vi) the Company executes a deed of company arrangement;

- (vii) a takeover bid is made to acquire all or some of the Ordinary Shares and the offer is, or becomes, unconditional and:
 - (A) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or
 - (B) the Directors issue a statement recommending acceptance of the offer;
 - (viii) a court approves a scheme of arrangement which, when implemented, will result in a person other than the Company having a relevant interest in more than 50% of the Ordinary Shares;
 - (ix) the Ordinary Shares or the RPS are suspended from trading on ASX for more than 20 successive Business Days; or
 - (x) the Company announces to ASX an intention to sell all or substantially all of its business undertaking or assets (other than to effect a solvent re-construction).
- (c) The Company must notify Holders of the occurrence of a Trigger Event by publishing a notice in "The Australian" or a daily financial newspaper in Australia which specifies the particular Trigger Event as soon as practicable after becoming aware of the applicable event.

3.3 Exchange by the Company

- (a) The Company may serve on Holders:
 - (i) An Issuer Exchange Notice at least 35 Business Days (but no more than 6 months) before a Reset Date in respect of all or some of their RPS;
 - (ii) An Issuer (Event) Exchange Notice following the occurrence of a Tax Event or Regulatory Event in respect of all (but not some only) of their RPS; or
 - (iii) An Issuer (Event) Exchange Notice no later than 35 Business Days after the Company has published a notice under clause 3.2(c) following a takeover or scheme of arrangement as described in clauses 3.2(b)(vii) and 3.2(b)(viii) in respect of all (but not some only) of their RPS.
- (b) If the Company serves an Exchange Notice, the Company must include in that notice which of the following it intends to do in respect of the RPS the subject of the notice:
 - (i) convert the RPS into Ordinary Shares in accordance with clauses 3.5 and 3.6; or
 - (ii) redeem, buy back or cancel the RPS for their Face Value on the relevant Exchange Date and send the proceeds to the Holder on the relevant Exchange Date.

The Company may only apply the mechanism in clause 3.3(b)(ii) if APRA has given its prior approval to such mechanism being applied.
- (c) The Company cannot serve an Issuer Exchange Notice to convert only some RPS if, as at the date of the Issuer Exchange Notice, that conversion would result in there being unconverted RPS with an aggregate Face Value of less than \$100 million. In a partial conversion, the Company must endeavour to treat Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels and other logistical considerations.
- (d) The Company is not restricted from giving a notice under clause 3.3(a) merely because a Holder has given a notice under clause 3.1(a). If the Company serves an Exchange Notice after the Holder has served an Exchange Notice under clause 3.1(a), the Company's notice will prevail if there is any inconsistency.
- (e) If the Company serves an Exchange Notice in accordance with clause 3.3(a) the Exchange Date is:
 - (i) for an Issuer Exchange Notice, the Reset Date immediately following the date the Issuer Exchange Notice was served; or
 - (ii) for an Issuer (Event) Exchange Notice, the last Business Day of the month following the month in which the Issuer (Event) Exchange Notice was served by the Company unless the Company determines an earlier Exchange Date having regard to the best interests of the Holders (collectively) and the relevant event.

3.4 Exchange Notices are irrevocable

An Issuer Exchange Notice or Issuer (Event) Exchange Notice given by the Company under clause 3.3(a) or a Holder Exchange Notice or Holder (Event) Exchange Notice delivered by a Holder under clause 3.1(a) is irrevocable.

3.5 Meaning of conversion

Each RPS, on any conversion, confers all of the rights attaching to one fully paid Ordinary Share but these rights do not take effect until 5.00pm Sydney time on the Exchange Date. At that time:

- (a) all other rights and restrictions conferred on the RPS under these terms of issue will no longer have any effect (except for any rights relating to a Dividend payable on or before the Exchange Date which will subsist); and
- (b) each RPS will rank equally with all other fully paid Ordinary Shares then on issue and the Company will issue a statement that the Holder of those shares holds a share so ranking.

The taking effect of the rights of a RPS under this clause 3.5 and any allotment of additional Ordinary Shares under clause 3.6 is, for the purposes of these terms of issue, together termed "conversion".

Conversion does not constitute cancellation, redemption or termination of a RPS or an issue, allotment or creation of a new share (other than any additional Ordinary Shares allotted under clause 3.6).

3.6 Conversion and additional Ordinary Shares

If:

- (a) Holders issue an Exchange Notice under clause 3.1(a) and the Company chooses the mechanism of Exchange described in clause 3.1(c)(i), or
- (b) The Company issues an Exchange Notice in accordance with clause 3.3(a) and chooses the mechanism of Exchange described in clause 3.3(b)(i),

then each RPS the subject of an Exchange Notice will convert on the Exchange Date into one Ordinary Share and upon conversion, each Holder will be allotted an additional number of Ordinary Shares determined in accordance with the following formula (provided that where the total number of additional Ordinary Shares to be allotted to that Holder in respect of the total number of the RPS being converted at that time includes a fraction, that fraction will be disregarded).

$$AS = N \times [CR - 1]$$

where:

- AS** means a whole number of additional Ordinary Shares which is equal to or greater than zero;
- N** is the number of the RPS held by the Holder at the Exchange Date the subject of the Exchange Notice;
- CR** means:
 - (a) if conversion is made under clause 3.1(a)(i) an amount calculated by dividing FV by RP; or
 - (b) in all other circumstances, an amount calculated by dividing FV by CRP.Subject in both cases to CR being no less than 1.
- FV** means the Face Value of each RPS;
- RP** means, subject to clause 3.7, the VWAP during the Reference Period;
- CRP** means RP multiplied by 97.5%.

3.7

Adjustments to VWAP

For the purposes of calculating VWAP in clause 3.6 (the definition of RP):

- (a) where, on some or all of the Business Days in the Reference Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and the RPS will convert into Ordinary Shares after the date those Ordinary Shares no longer carry that entitlement (“**Ex Date**”), then the VWAP on the Business Days on which those shares have been quoted cum dividend or cum entitlement shall be reduced by an amount (“**Cum Value**”) equal to:
 - (i) (in case of a dividend or other distribution) the amount of that dividend or distribution including, if the dividend or distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or distribution who is a natural person resident in Australia under the Tax Act;
 - (ii) (in the case of an entitlement that is not a dividend or other distribution under clause 3.7(a)(i) and which is traded on ASX on any of those Business Days) the volume weighted average price of all such entitlements sold on ASX during the Reference Period on the Business Days on which those entitlements were traded; or
 - (iii) (in the case of an entitlement that is not a dividend or other distribution under clause 3.7(a)(i) and which is not traded on ASX during the Reference Period) the value of the entitlement as reasonably determined by the Directors.
- (b) where, on some or all of the Business Days in the Reference Period, Ordinary Shares have been quoted ex dividend, ex distribution or ex entitlement, and the RPS will convert into Ordinary Shares which would be entitled to receive the relevant dividend, distribution or entitlement, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend, ex distribution or ex entitlement shall be increased by the Cum Value.
- (c) where the Ordinary Shares are reconstructed, consolidated, divided or reclassified into a lesser or greater number of securities during a Reference Period, the VWAP shall be adjusted by the Directors as they consider appropriate. Any adjustment made by the Directors will constitute an alteration to these terms of issue and will be binding on all Holders and these terms of issue will be construed accordingly. Any such adjustment will promptly be notified to all Holders.

4

Reset of Terms

4.1

The Company may vary terms

Subject to clause 4.2, the Company may, prior to any Reset Date, make changes to any or all the following terms:

- (a) the next Reset Date (which must be at least 12 months after the immediately preceding Reset Date);
- (b) the Market Rate;
- (c) the Margin; and
- (d) the frequency and timing of the Dividend Payment Dates.

These new terms will apply from the day after the relevant Reset Date until and including the next Reset Date. Any change made by the Company under this clause 4.1 must be notified in accordance with clause 4.3 (“Reset Notice”).

4.2

APRA restrictions on variation of terms

Unless otherwise approved by APRA, any variation in the terms as specified in the Reset Notice will be subject to the following:

- (a) the next Reset Date must be five years from the immediately preceding Reset Date;
- (b) where a Reset Date occurs on a day prior to the end of the Initial Period, the Company cannot, in respect of that Reset Date, increase the Margin from the Initial Margin but the Company may decrease the Margin provided that the decreased Margin does not exceed the rate calculated in accordance with the formula set out in paragraph (c)(iii) below; and

- (c) any variation in the Market Rate or Margin as specified in the Reset Notice will be calculated in accordance with the following formula:

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

where:

Market Rate the rate calculated as the average of the mid-point of the quoted average swap reference rates for the period between the relevant Reset Dates at three pre-determined times on Reuters page CMBE (or any page which replaces that page) on the relevant Reset Date;

Margin expressed as a percentage per annum, does not exceed the Initial Margin for the Initial Period and after the Initial Period is a rate determined by the Company provided that it does not exceed the lesser of:

- (i) the Margin that applied on the previous Reset Date plus 100 basis points;
- (ii) the Initial Margin plus 100 basis points; and

(iii) the Initial Margin $\times \frac{FR - FRG}{FP - FPG}$

where:

FR is the fair market value yield curve on Bloomberg Page FMCS for A rated five year AUD securities (or any page which replaces that page) on the relevant Reset Notice Date;

FP is the fair market value yield curve on Bloomberg Page FMCS for A rated five year AUD securities (or any page which replaces that page) on the allotment date of the RPS;

FRG is the fair market value yield curve on Bloomberg Page FMCS for Australian government five year AUD securities (or any page which replaces that page) on the relevant Reset Notice Date;

FPG is the fair market value yield curve on Bloomberg Page FMCS for Australian government AUD securities (or any page which replaces that page) on the allotment date of the RPS;

T has the meaning given to that term in clause 2.1(a).

For the avoidance of doubt, APRA may from time to time waive any or all of the restrictions in this clause 4.2, in which event the Company may vary the terms as contemplated under clause 4.1.

4.3

Notification

- (a) For a change made under clause 4.1 to be effective, the Reset Notice must be sent to all Holders no later than 50 Business Days immediately preceding the relevant Reset Date ("**Reset Notice Date**").
- (b) If the Company does not send a Reset Notice, the terms applying as at the relevant Reset Date will continue and the next Reset Date will be such that the period to the next Reset Date is the same as the period that has passed from the immediately preceding Reset Date until the relevant Reset Date.

5

RPS general rights

5.1

Ranking

RPS rank equally amongst themselves in all respects and are subordinated to all depositors and creditors of the Company. The issue of any other preference shares which rank in priority to the RPS in respect of dividends or return of capital on a winding-up constitutes an alteration of the rights attached to the RPS. The Company reserves the right to issue further RPS or preference shares which rank equally with existing RPS, 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 RPS.

- 5.2 — Preferential dividend**
Until conversion, the RPS rank in priority to Ordinary Shares for the payment of dividends.
- 5.3 — No set off**
Any amount due to a Holder in respect of the RPS may not be set off against any claims by the Company on the Holder.
- 5.4 — Return of capital**
Until conversion, if there is a return of capital on a winding-up of the Company, Holders will be entitled to receive out of the assets of the Company available for distribution to holders of shares, in respect of each RPS held, a cash payment (“Liquidation Sum”) equal to the sum of:
(a) the amount of any Dividend due but unpaid; and
(b) the Face Value,
before any return of capital is made to holders of Ordinary Shares or any other class of shares ranking behind the RPS.
RPS do not confer on their Holders any right to participate in profits or property except as set out in these terms of issue.
- 5.5 — Shortfall on winding up**
If, upon a return of capital on a winding up of the Company, there are insufficient funds to pay in full the amounts referred to in clause 5.4 and the amounts payable in respect of any other shares in the Company ranking as to such distribution equally with the RPS on a winding-up of the Company, Holders and the holders of any such other shares will share in any distribution of assets of the Company in proportion to the amounts to which they respectively are entitled.
- 5.6 — No participation in surplus assets**
The RPS do not confer on their Holders any further right to participate in the surplus assets of the Company on a winding-up beyond payment of the Liquidation Sum.
- 5.7 — Restrictions on other issues**
Until the date on which all RPS have been converted, the Company must not, without approval of a special resolution passed at a separate meeting of Holders issue shares ranking in priority to the RPS or permit the conversion of any existing shares to shares ranking equally or in priority to the RPS, but the Directors are at all times authorised to issue further RPS or preference shares ranking equally with or after any existing RPS.
- 5.8 — Takeovers and schemes of arrangement**
If a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors, or the Directors recommend a scheme of arrangement in respect of the Ordinary Shares of the Company which will result in a person other than the Company having a relevant interest in more than 50% of the Ordinary Shares, the Directors will use reasonable endeavours to procure that equivalent takeover offers are made to Holders or that they are entitled to participate in the scheme of arrangement or a similar transaction.
- 5.9 — Participation in new issues**
Until the RPS are converted they will confer no rights to subscribe for new securities in the Company or to participate in any bonus issues.

6

Voting rights

6.1

Holders will be entitled to receive notice of any general meeting of the Company and a copy of every circular and like document sent out by the Company to holders of Ordinary Shares and to attend and speak at general meetings of the Company.

6.2

Holders will not be entitled to vote at any general meeting of the Company except in the following circumstances:

- (a) on a proposal:
 - (i) to reduce the share capital of the Company;
 - (ii) that affects rights attached to the RPS;
 - (iii) to wind up the Company; or
 - (iv) for the disposal of the whole of the property, business and undertaking of the Company;
- (b) on a resolution to approve the terms of a buy back agreement;
- (c) during a period in which a Dividend or part of a Dividend on the RPS is in arrears; or
- (d) during the winding up of the Company.

In each case, Holders shall have the same right to vote as a holder of Ordinary Shares (as if immediately prior to the meeting the RPS had converted into the number of Ordinary Shares provided for in clause 3.6 as if the Record Date is the deadline for receipt of instruments of proxy under article 10.15 of the Company's constitution for the relevant meeting and the Reference Period is the period ending on that date).

7

Listing

The Company must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure, at its own expense, quotation of the RPS on ASX and of all converted RPS and additional Ordinary Shares issued under clause 3.6 on each of the stock exchanges on which the other Ordinary Shares of the Company are listed on the date of conversion.

8

Amendments to the Terms of Issue

Subject to complying with all applicable laws and with APRA's prior approval, the Company may without the authority, assent or approval of Holders amend or add to these terms of issue if such amendment or addition is, in the opinion of the Company:

- (a) of a formal, minor or technical nature;
- (b) made to correct a manifest error; or
- (c) not likely (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) to be materially prejudicial to the interests of the Holders of the RPS.

9

Interpretation

- (a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these terms of issue, the terms of the special resolution of the Company passed on 22 June 2000 regarding non-cumulative preference shares and the Company's constitution, then, to the maximum extent permitted by law, the provisions of these terms of issue will prevail.
- (b) Unless otherwise specified, the Directors may exercise all powers of the Company under these terms of issue as are not, by the Corporations Act or by the Company's constitution, required to be exercised by the Company in general meeting.

- (c) Notices may be given by the Company to a Holder in the manner prescribed by the Company's constitution for the giving of notices to members of the Company and the relevant provisions of the Company's constitution apply with all necessary modification to notices to Holders.
- (d) Unless otherwise specified, a reference to a clause is a reference to a clause of these terms of issue.
- (e) If a calculation is required under these terms of issue, unless the contrary intention is expressed, the calculation will be rounded to four decimal places.
- (f) Definitions and interpretation under the Company's constitution will also apply to these terms of issue subject to clause 9(a).
- (g) Any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply to the Company only if the Company is an entity or the holding company of an entity subject to regulation and supervision by APRA at the relevant time.
- (h) The terms "takeover bid", "relevant interest" and "scheme of arrangement" when used in these terms have the meaning given in the Corporations Act.
- (i) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (j) If an event under these 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.
- (k) The following expressions shall have the following meanings:
 - APRA** means the Australian Prudential Regulation Authority.
 - ASX** means Australian Stock Exchange Limited.
 - ASX Business Rules** means the business rules of ASX from time to time with any modification or waivers in their application to the Company, which ASX may grant.
 - ASX Listing Rules** means the listing rules of ASX from time to time with any modification or waivers in their application to the Company, which ASX may grant.
 - AUD** means Australian dollars.
 - Bookbuild** means the process conducted by the Company prior to the opening of the Offer whereby certain Australian institutional investors and brokers who wish to obtain a firm allocation of the RPS (whether for themselves or their clients) lodge bids for the RPS and, on the basis of those bids, the Company determines the Margin (and the firm allocations of the RPS) and announces its determination prior to the opening of the Offer.
 - Business Day** means a day on which the banks are open for trading in Sydney.
 - Company** means Insurance Australia Group Limited (ABN 60 090 739 923).
 - Corporations Act** means Corporations Act 2001 (Cwlth).
 - Dividend** has the meaning given in clause 2.1.
 - Dividend Rate** has the meaning given in clause 2.1.
 - Dividend Payment Date** means each date on which a Dividend is payable in accordance with clause 2.6, including as varied under clause 4, whether or not a Dividend is paid on that date.
 - DRP** means a Dividend Reinvestment Plan that may be adopted by the Company (and as may be amended from time to time) under which members of the Company have the opportunity to reinvest a dividend or other similar distribution in additional securities of the Company.
 - Exchange** means:
 - (a) in the case of the Holder issuing an Exchange Notice to the Company under clause 3.1(a), conversion of the RPS into Ordinary Shares in accordance with clause 3.6, the acquisition of the RPS by a third party at their Face Value or the redemption, buy back or cancellation of the RPS for their Face Value, as determined by the Company in accordance with clause 3.1(c); or
 - (b) in the case of the Company issuing an Exchange Notice to the Holder under clause 3.3(a), conversion of the RPS into Ordinary Shares in accordance with clause 3.6, or the redemption, buy back or cancellation of the RPS for their Face Value, as determined by the Company in accordance with clause 3.3(b).

Exchange Date means:

- (a) in the case of a notice given by a Holder under clause 3.1(a), has the meaning given in clause 3.1(e); and
- (b) in the case of a notice served on a Holder by the Company under clause 3.3 has the meaning given in clause 3.3(e).

Exchange Notice means a notice given by a Holder to the Company under clause 3.1(a) or served on a Holder by the Company under clause 3.3(a).

Face Value has the meaning given in clause 1.

Franking Rate, in relation to a Dividend, means the franking percentage (within the meaning of Part IIIAA of the Tax Act or any part that replaces or revises that part) of the Dividend, expressed as a decimal to four decimal places.

Group means the Company and its subsidiaries.

Holder means a person whose name is for the time being registered in the Register as the holder of a RPS.

Holder (Event) Exchange Notice means a notice given by a Holder to the Company under clause 3.1(a)(ii).

Holder Exchange Notice means a notice given by a Holder to the Company under clause 3.1(a)(i).

Initial Margin has the meaning given in clause 2.1(a).

Initial Period means the period from the allotment date of the RPS until 10 years after that allotment date.

Issuer (Event) Exchange Notice means a notice given by the Company to a Holder under clauses 3.3(a)(ii) or 3.3(a)(iii).

Issuer Exchange Notice means a notice given by the Company to a Holder under clause 3.3(a)(i).

Liquidation Sum has the meaning given in clause 5.4.

Margin has the meaning given in clause 2.1(a).

Market Rate has the meaning given in clause 2.1(a).

Offer means the invitation to be made pursuant to a prospectus to be issued by the Company for persons to subscribe for RPS.

Optional Dividend has the meaning given in clause 2.9(d).

Ordinary Share means an ordinary fully paid share in the capital of the Company.

Record Date means, for a payment of:

- (a) a Dividend, the date which is 11 Business Days before the Dividend Payment Date for that Dividend; and
- (b) an Optional Dividend, the date prior to its payment that is determined by the Company, or such other date as may be required by ASX from time to time.

Register means the register of the Company RPS maintained by the Company and includes any sub-register established and maintained under the Clearing House Electronic Sub-Register System (as defined in the ASX Listing Rules).

Regulatory Event means:

- (a) the receipt by the Company from a reputable legal counsel that, as a result of any amendment to, clarification of, or change (including any announcement of a prospective change) in, any law or regulation affecting securities laws of Australia or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations which amendment, clarification or change is effective or pronouncement, action or decision is announced on or after the date on which the RPS are allotted, additional requirements would be imposed on the Company which the Directors determine at their sole discretion, to be unacceptable; or
- (b) the determination by the Directors that the Company is not or will not be entitled to treat all of the RPS as Tier 1 Capital.

Reference Period means in determining "RP" in clause 3.6, the period of 20 Business Days on which trading in the Ordinary Shares took place immediately preceding:

- (a) if the Company receives a Holder (Event) Exchange Notice under clause 3.2(a) due to the Trigger Event set out in clause 3.2(b)(ix), the date of the suspension of the Ordinary Shares or the RPS from trading on ASX; or
- (b) in all other cases, the Exchange Date.

Reset Date is 15 June 2007 for the first Reset Date and thereafter the date as specified by the Company in a Reset Notice issued under clause 4.3.

Reset Notice has the meaning given in clause 4.1.

Reset Notice Date has the meaning given in clause 4.3(a).

RPS has the meaning given in clause 1.

Special Resolution means a resolution passed at a meeting of Holders by a majority of at least 75% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution.

Tax Act means:

- (a) the Income Tax Assessment Act 1936 or the Income Tax Assessment Act 1997 as the case may be, as amended, and a reference to any section of the Income Tax Assessment Act 1936 includes a reference to that section as rewritten in the Income Tax Assessment Act 1997; and
- (b) any other Act setting the rate of income tax payable and any regulation promulgated thereunder.

Tax Event means the receipt by the Company of an opinion from a reputable legal counsel or other tax adviser in Australia, experienced in such matters to the effect that, as a result of:

- (a) any amendment to, clarification of, or change (including any announced prospective change), in the laws or treaties or any regulations of Australia or any political subdivision or taxing authority of Australia affecting taxation;
- (b) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (**Administrative Action**); or
- (c) any amendment to, clarification of, or change in, the pronouncement that provides for a position with respect to an Administrative Action that differs from the current generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known,

which amendment, clarification, change or Administrative Action is effective or such pronouncement or decision is announced on or after the date of allotment, there is more than an insubstantial risk that the Company would be exposed to more than a de minimus increase in its costs (having regard to any tax deductions available to the Company in connection with the payment of Dividends) in relation to the RPS as a result of increased taxes, duties or other governmental charges or civil liabilities.

Tier 1 Capital means the core capital of the Group as defined by APRA.

Tier 1 Capital Ratio means at any time the ratio so described by APRA.

Total Capital Adequacy Ratio means at any time the ratio so described by APRA.

Trigger Event has the meaning given in clause 3.2(b).

VWAP is subject to any adjustments under clause 3.7, the average of the daily volume weighted average sale price (rounded to the nearest full cent) of Ordinary Shares sold on ASX during the relevant period or on the relevant days but does not include any transaction defined in the ASX Business Rules as "special", crossings prior to the commencement of normal trading, crossings during the after hours adjust phase nor any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

Glossary

The following is a glossary of the terms used in this Prospectus including terms commonly used in the insurance industry. There is also a list of defined terms in clause 9 of the Terms of Issue in Appendix A. Defined terms in this Glossary and in clause 9 of the Terms of Issue are used throughout this Prospectus.

Application	a valid application made on the conditions set out in the Prospectus by using an Application Form to apply for a specified number of the RPS.
Application Form	each form attached to or accompanying the Prospectus upon which an offer to subscribe for RPS may be made.
ASIC	Australian Securities & Investments Commission.
Board	all or some of the Directors acting as a board.
Buy-back	an offer intended to be made by IAG to shareholders to buy back up to 100% of their Ordinary Shares in IAG.
CGT	means capital gains tax.
CHESS	Clearing House Electronic Subregister System operated by an associate of ASX.
Closing Date*	the last day on which Application Forms will be accepted.
Director	a director of IAG.
GST	means goods & services tax.
IAG or the Company	Insurance Australia Group Limited (ABN 60 090 739 923) formerly NRMA Insurance Group Limited.
IAG Shareholder, Shareholder, or Ordinary Shareholder	holder of Ordinary Shares.
Issue Date	the date on which RPS are issued to successful applicants.
Lead Manager	Macquarie.
Listing Rules	the Listing Rules of ASX.

Macquarie	Macquarie Equity Capital Markets Limited (ABN 60 001 374 572).
Offer Management Agreement	the agreement to be entered into between IAG and the Lead Manager subject to and on the terms summarised in section 7.7.
Offer Period*	16 May 2002 to 31 May 2002.
Opening Date	16 May 2002.
Participating Broker	the Lead Manager and any member organisation of ASX selected by the Lead Manager.
RPS	Reset Preference Shares issued by IAG pursuant to the Terms of Issue set out in Appendix A of this Prospectus.
S & P	Standard & Poor's Rating Services.
Terms of Issue	the terms of issue of the RPS set out in Appendix A of this Prospectus.

** IAG has the right, subject to agreement with the Lead Manager, to close the Offer early or to extend the Closing Date for the Offer without notice.*

The following are terms commonly used in the general insurance industry.

Acquisition Costs	the cost of writing an insurance policy, including sales and marketing expenses and other expenses.
Cede, Ceded or Ceding	Reinsurance of all or a portion of an insurer's risk with another insurer.
Claims Handling Expenses	the expenses of settling claims, including legal and other fees and general expenses.
Combined Ratio	the sum of the Loss Ratio and Expense Ratio.
Deferred Acquisition Costs	Acquisition Costs which are capitalised and amortised over the period of the expected benefit.
Expense Ratio	the ratio of Underwriting Expenses to Net Earned Premium.
Gross Written Premium	the total premiums relating to insurance policies underwritten by an insurer or reinsurer during a specified period, before deduction of Reinsurance premiums.
Insurance Margin	Insurance Profit divided by Net Earned Premium.
Insurance Profit	Underwriting Result plus investment income on Technical Reserves.
Inwards Reinsurance	the Reinsurance of risks written by another insurer or reinsurer.
Loss Adjustment Expenses	the expenses of settling claims, including legal and other fees and general expenses.
Loss Ratio	the ratio of incurred losses plus Claims Handling Expenses to Earned Premiums (both net of Reinsurance).

Glossary *(continued)*

Net Claims Expense	insurance claim losses incurred plus Claims Handling Expenses minus Recoveries.
Net Earned Premium	Gross Written Premium less premiums Ceded to reinsurers plus/minus movements in Unearned Premiums.
Outwards Reinsurance	the Ceding of risks written by the insurer to another insurer or reinsurer.
Probability of Sufficiency	is 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 new 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 (as amended).
Recoveries	the amount of claims recovered from reinsurers, third parties or salvage.
Reinsurance	the acceptance by one or more reinsurers of a portion of risk underwritten by an insurer that has directly written the coverage in return for a portion of the premium related thereto. The legal rights of the insured are generally not affected by the Reinsurance transaction, and the insurer issuing the insurance policy remains liable to the insured for payment of claims.
Technical Reserves	the investments held to back provision for outstanding claims (including incurred but not reported and incurred but not enough recorded) and Unearned Premiums, net of Recoveries and premium debtors.
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 profit/(loss)	see Underwriting Result.
Underwriting Result	Net Earned Premium less Net Claims Expense less Underwriting Expense.
Unearned Premium	the portion of premium written applicable to the unexpired portion of a policy.

Application Form

If you are an existing Insurance Australia Group Limited ("IAG") shareholder please tick here.

To meet the requirements of the Corporations Act, this Application Form must not be handed on unless attached to or accompanied by the Prospectus dated 6 May 2002. Please fill out this Application Form if you wish to apply for Reset Preference Shares ("RPS"). You do not have to sign this form. Please refer to the instructions overleaf.

Number of RPS applied for

Issue price per RPS

I/we lodge full Application monies

A , , , , , , , , , at **A\$100.00** **B** A\$, , , , , . **00**

(minimum 100RPS)

COMPLETE FULL NAME DETAILS

Please print clearly in CAPITAL LETTERS using black or blue ink. Do not write outside the boxes.

C Title Given names or company name Surname

Joint Application 2 or account designation

Title Given names or company name Surname

Joint Application 3 or account designation

Title Given names or company name Surname

COMPLETE ADDRESS DETAILS

D Unit Number Street Number or Post Office Box or other Mail Box details (if applicable)

Street Name

Suburb/City or Town State Postcode

E TFN (or exemption code) First Applicant Joint Applicant 2 Joint Applicant 3

Existing shareholders

If you are an existing IAG shareholder on the Issuer Sponsored Subregister and you would like your RPS allotted to your existing Securityholder Reference Number ("SRN"), please provide your SRN in the boxes below.

CHESS Participants

If you are an existing CHESS Participant and you would like your RPS to be allotted to your CHESS Broker Sponsored HIN, please provide your CHESS HIN in the boxes below.

F Alternatively, if you wish to hold your RPS as a separate holding, please disregard this section.
Issuer Sponsored SRN (if applicable) CHESS HIN (if applicable)

G You should lodge your Application Form as soon as possible. Cheques should be crossed **Not Negotiable** and made payable to 'IAG RPS Account'.

CHEQUE DETAILS

Drawer Bank BSB or Branch Name Amount of Cheque **A\$** . **00**

Declaration

Any application for RPS can be accepted by IAG at any time prior to closing the Offer and cannot be withdrawn by an intending investor prior to closing the Offer.

I/we declare that I/we have personally received and read the whole of the Prospectus (or have accessed a copy of the electronic prospectus) accompanied by or attached to this Application Form. By returning this Application Form, the Applicant acknowledges that they have received and read the whole of this Prospectus.

OFFER SCHEDULED TO CLOSE 5.00PM (Sydney time) 31 May 2002

THIS DOCUMENT RELATES TO THE PROSPECTUS DATED 6 MAY 2002 AND SHOULD BE READ IN CONJUNCTION WITH THAT DOCUMENT

IAG FLT001

How to complete the Application Form

You should read the Prospectus carefully before completing this Application Form

The Prospectus is dated 6 May 2002 and expires on 5 June 2003. The Prospectus contains important information about investing in RPS and you should read it in full before applying for RPS. On request, IAG will send you a free copy of the Prospectus, any supplementary prospectus and the application form. Please call (02) 8218 8405 to obtain a paper copy of the Prospectus.

The Prospectus to which this Application Form is attached differs from the Prospectus lodged with the Australian Securities and Investments Commission as the numerical values for the Dividend Rate, Market Rate and Margin have been included.

You do not have to sign this Form

Please complete all relevant sections of the Application Form USING BLOCK LETTERS. These instructions are cross referenced to each section of the form.

- A** Insert the number of RPS you wish to apply for. No applicant is assured of receiving any RPS for which they have applied.
- B** Please enter the total amount of the cheque or bank draft required for payment for the RPS for which you have applied at the issue price of A\$100 per RPS in box B.
- C** Write the full name you wish to appear on the statement of shareholding. This must be either your own name or the name of a company. Up to three joint applicants may apply.
- D** Please enter your postal address for all correspondence. All communications to you will be mailed to the person(s) and address as shown. For joint applicants only one address can be entered.
- E** Enter your Tax File Number ("TFN") or exemption code. Where applicable, please enter the TFN for each joint applicant. Collection of TFN(s) is authorised by taxation laws. Quotation of TFN(s) is not compulsory and will not affect your application.
- F** By providing your Issuer Sponsored SRN or CHESS HIN your RPS will be allotted to this number. If you do not provide your existing Issuer Sponsored SRN or CHESS HIN your RPS will be allotted to a new Issuer Sponsored SRN.
- G** Please enter your cheque details as requested in section G. Cheques must be drawn on an Australian branch of a financial institution in Australian currency and made payable to "IAG RPS Account".

Please enter your contact telephone numbers so we may contact you regarding your application, if necessary.

Home Telephone Number

Work Telephone Number

Contact Name (PRINT)

(<input type="text"/>) <input type="text"/>	(<input type="text"/>) <input type="text"/>	<input type="text"/>
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How to lodge your Application Form

The completed form should be forwarded with your payment to reach the Registrar by 5.00pm (Sydney time) on 31 May 2002. IAG has the right, subject to agreement with the Lead Manager, to close the Offer early or to extend the Closing Date for the Offer without notice.

General Applications

Postal Address Insurance Australia Group Limited
Reply Paid 35
Eastern Suburbs MC NSW 2004

or

Hand Delivery Insurance Australia Group Limited
C/- ASX Perpetual Registrars Limited
Level 8, 580 George Street
Sydney NSW 2000

Broker firm allocations: Broker firm applicants should contact the Participating Broker from whom they received their firm allocation of RPS for information about submitting an application and payment instructions. You should be aware that the Sponsoring Broker will settle your application on a delivery versus payment basis through CHESS and this transaction will not have the benefit of coverage by the National Guarantee Fund.

Terms and conditions

The applicant agrees to be bound by the provisions (as amended and as may be amended from time to time in the future) of the Constitution of Insurance Australia Group Limited.

The applicant represents and warrants that they have not received this Prospectus outside Australia and are not acting on behalf of a person resident outside Australia unless they are an institutional investor to whom the securities may be offered in their jurisdiction without contravention of the securities laws of that jurisdiction or any need to register the Prospectus or the Offer.

Privacy Act

ASX Perpetual Registrars Limited advise that once you become a RPS shareholder in IAG, Chapter 2C of the *Corporations Act 2000* requires information about you (including your name, address and details of the shares you hold) to be included in Insurance Australia Group Limited's public register. This information must continue to be included in Insurance Australia Group Limited's public register if you cease to be a RPS shareholder. These statutory obligations are not altered by the *Privacy Amendment (Private Sector) Act 2000*. Information is collected to administer your security holding and if some or all of the information is not collected then it might not be possible to administer your security holding. Our privacy policy is available on our website (www.registrars.aprl.com.au).

Information you supply on this Application Form will be used by IAG in connection with the issue and subsequent administration of the Reset Preference Shares, and may be disclosed by IAG on a confidential basis to IAG's professional advisers (including the Lead Manager) in connection with these purposes. IAG's Privacy Statement is available on its website (www.iag.com.au).

OFFER SCHEDULED TO CLOSE 5.00PM (Sydney time) 31 May 2002

THIS DOCUMENT RELATES TO THE PROSPECTUS
DATED 6 MAY 2002 AND SHOULD BE READ IN CONJUNCTION WITH THAT DOCUMENT

Corporate Directory

Registered and Head Office

Insurance Australia Group Limited

Level 21, 388 George Street
Sydney NSW 2000

Lead Manager

Macquarie Equity Capital Markets Limited

Level 9, No. 1 Martin Place
Sydney NSW 2000
www.macquarie.com.au

Co Managers

ABN AMRO Morgans Limited

Level 29, Riverside Centre
123 Eagle Street
Brisbane QLD 4000
www.abnamromorgans.com.au

Commonwealth Securities Limited

Level 6
120 Pitt Street
Sydney NSW 1155
www.commsec.com.au

JBWere Limited

Level 42, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
www.jbwere.com.au

Legal Advisers to IAG

Mallesons Stephen Jaques

Level 60, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Auditors to IAG

KPMG

KPMG Centre
45 Clarence Street
Sydney NSW 2000

Share Registry

ASX Perpetual Registrars Limited

Level 8
580 George Street
Sydney NSW 2000

