

## IAG launches Capital Notes Offer.

Insurance Australia Group Limited (IAG) today announced an offer of Capital Notes to raise \$300m with the ability to raise more or less (Offer).

The Capital Notes are scheduled to pay quarterly, floating rate, discretionary distributions which are expected to be fully franked. The Capital Notes have an Optional Exchange Date on 15 June 2023 and, subject to certain conditions, will Mandatorily Convert into IAG ordinary shares on 16 June 2025.

The Capital Notes have an Issue Price of \$100 and will qualify as Additional Tier 1 Capital. IAG has applied for the Capital Notes to be quoted on the ASX where they are expected to trade under the code IAGPD.

The Offer is part of IAG's capital management strategy and the proceeds will be used for general corporate purposes and to refinance some of the existing convertible preference shares (CPS) (ASX: IAGPC) issued by IAG in May 2012. Eligible CPS Holders are invited to participate in a voluntary Reinvestment Offer, under which IAG will buy back CPS and have the proceeds applied to Capital Notes on 22 December 2016.

### Key features of the Capital Notes

- Perpetual, convertible, subordinated unsecured notes, issued by IAG.
- Distributions are non-cumulative, based on a floating rate, expected to be fully franked and scheduled to be paid quarterly in arrears, subject to a Payment Condition not existing and IAG exercising its discretion to pay.
- The Distribution Rate will be the 3-month Bank Bill Rate plus the Margin multiplied by  $(1 - \text{the corporate tax rate (currently 30\%)})$ .
- The Margin will be determined following the Bookbuild and is expected to be in the range of 4.70% to 4.90%.
- On 15 June 2023, IAG has the right to Redeem, Resell or Convert (Exchange) some or all of the Capital Notes, subject to certain conditions including APRA's prior written approval. Investors should not assume APRA's approval will be given if requested.
- Conversion into a variable number of IAG ordinary shares on 16 June 2025 (subject to certain conditions being satisfied), unless Exchanged earlier.
- Where a Non-Viability Trigger Event occurs, the Capital Notes are subject to Conversion into ordinary shares or Write-Off, in which case Capital Note Holders are likely to suffer a material loss.
- IAG must convert all Capital Notes if an Acquisition Event occurs, may Convert all Capital Notes if a Potential Acquisition Event occurs and may Exchange all or some Capital Notes if a Tax Event or Regulatory Event occurs, in each case subject to certain conditions.

## Details of the Offer

The Offer comprises:

- an Institutional Offer to certain Institutional Investors;
- a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers; and
- a Reinvestment Offer made to Eligible CPS Holders.

The Offer is being made under a prospectus lodged with ASIC and ASX today (Prospectus). The Prospectus does not contain the Margin or an Application Form. A replacement prospectus containing the Margin and an Application Form will be lodged with ASIC and ASX once the Margin is determined and will be available from [www.iag.com.au](http://www.iag.com.au) or by calling the IAG Capital Notes Offer Information Line on 1300 647 382 (within Australia) or +61 3 9415 4123 (Monday to Friday—8:30am to 5:00pm Sydney time).

Investors should read and consider the Prospectus in full before deciding whether to invest in the Capital Notes. The Capital Notes are complex and involve more risks than simple debt or ordinary equity instruments. They are not suitable for all investors and contain features which may make the Capital Notes Terms difficult to understand. IAG strongly recommends that investors seek professional advice which takes into account their particular investment objectives and circumstances from a licenced adviser before deciding whether to participate in the Offer.

UBS AG, Australia Branch (UBS) has been appointed as Arranger and UBS, National Australia Bank Limited and Westpac Institutional Branch have been appointed as Joint Lead Managers to the Offer. Crestone Wealth Management Limited and JBWere Limited have been appointed as Co-Managers to the Offer.

### Voluntary Reinvestment Offer for Eligible CPS Holders

Participation in the Reinvestment Offer is voluntary.

Eligible CPS Holders are invited to apply for some or all of their CPS to be bought back on 22 December 2016 and have the buy-back proceeds applied to the Application Payment for Capital Notes. This means that no separate Application Payment is required under the Reinvestment Offer.

You will be an Eligible CPS Holder if you were a registered CPS holder at 7:00pm on 18 November 2016, are shown on the CPS register as having an address in Australia, and are not in the United States or acting as a nominee for a person in the United States.

Eligible CPS Holders have 3 options which are detailed in Section 6.3 of the Prospectus:

*Option 1—apply through their Syndicate Broker to reinvest their CPS in Capital Notes*

*Option 2—apply directly to IAG to reinvest their CPS in Capital Notes*

*Option 3—take no action*

Eligible CPS Holders who have some or all of their CPS reinvested in Capital Notes will receive a Pro Rata Dividend on their Reinvested CPS, which is expected to be on 22 December 2016, subject to the payment tests in the CPS Terms (including that the Board resolves to pay the dividend). Under the CPS Terms, IAG may elect to exchange the CPS on 1 May 2017 but no decision has yet been made.

### Key dates for the Offer

Lodgement of the Prospectus with ASIC	21 November 2016
Bookbuild to determine the Margin	28 November 2016
Announcement of the Margin	29 November 2016
Opening Date and lodgement of the replacement prospectus with ASIC	29 November 2016
Closing Date for the Broker Firm Offer (excluding applications to reinvest CPS)	10:00am Sydney time on 21 December 2016
Issue Date	22 December 2016
Commencement of deferred settlement trading	23 December 2016
Last date for despatch of Holding Statements	29 December 2016
Commencement of normal settlement trading	30 December 2016

### Key dates for the Capital Notes

First Distribution Payment Date	15 March 2017
Optional Exchange Date	15 June 2023
Mandatory Conversion Date	16 June 2025

### Key dates for CPS holders

Record date for determining Eligible CPS Holders for the Reinvestment Offer	7:00pm Sydney time on 18 November 2016
Opening Date for the Reinvestment Offer	29 November 2016
Closing Date for the Reinvestment Offer	5:00pm Sydney time on 16 December 2016
Closing Date for the Broker Firm Offer (applications to reinvest CPS)	5:00pm Sydney time on 16 December 2016
Reinvested CPS Buy-Back Date and payment date for Pro Rata Dividend on Reinvested CPS	22 December 2016
First optional exchange date for remaining CPS	1 May 2017

**All of the above dates are indicative only and may change.**

IAG will announce any such change to ASX. IAG and the Joint Lead Managers may agree to vary the timetable, including extending any Closing Date, closing the Offer early, accepting late Applications, whether generally or in particular cases, or withdrawing the Offer at any time before the Capital Notes are issued, at their discretion. You are encouraged to apply as soon as possible after the Opening Date.

### **Additional information**

Unless otherwise specified, capitalised terms in this announcement have the meaning given to them in the Prospectus.

For enquiries about the Offer, please refer to [www.iag.com.au](http://www.iag.com.au), or call the IAG Capital Notes Offer Information Line on 1300 647 382 (within Australia) or +61 3 9415 4123 (Monday to Friday—8:30am to 5:00pm Sydney time).

### **About IAG**

IAG is the parent company of a general insurance group ("the Group") with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia, employing more than 15,000 people. The Group's businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); NZI, State, AML and Lumley Insurance (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam); and Asuransi Parolamas (Indonesia). The Group also has interests in general insurance joint ventures in Malaysia and India. For further information please visit [www.iag.com.au](http://www.iag.com.au).

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# PROSPECTUS.

## INSURANCE AUSTRALIA GROUP LIMITED CAPITAL NOTES

**Prospectus for the issue of  
Insurance Australia Group Limited  
Capital Notes to raise \$300 million  
with the ability to raise more or less**

**Date of this Prospectus: 21 November 2016**

The Capital Notes are complex and involve more risks than simple debt or ordinary equity instruments. They are not suitable for all investors and contain features which may make the Capital Notes Terms difficult to understand. IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser before deciding whether to apply to participate in the Offer.

### **Issuer**

Insurance Australia Group Limited  
(ABN 60 090 739 923)

### **Arranger**

UBS

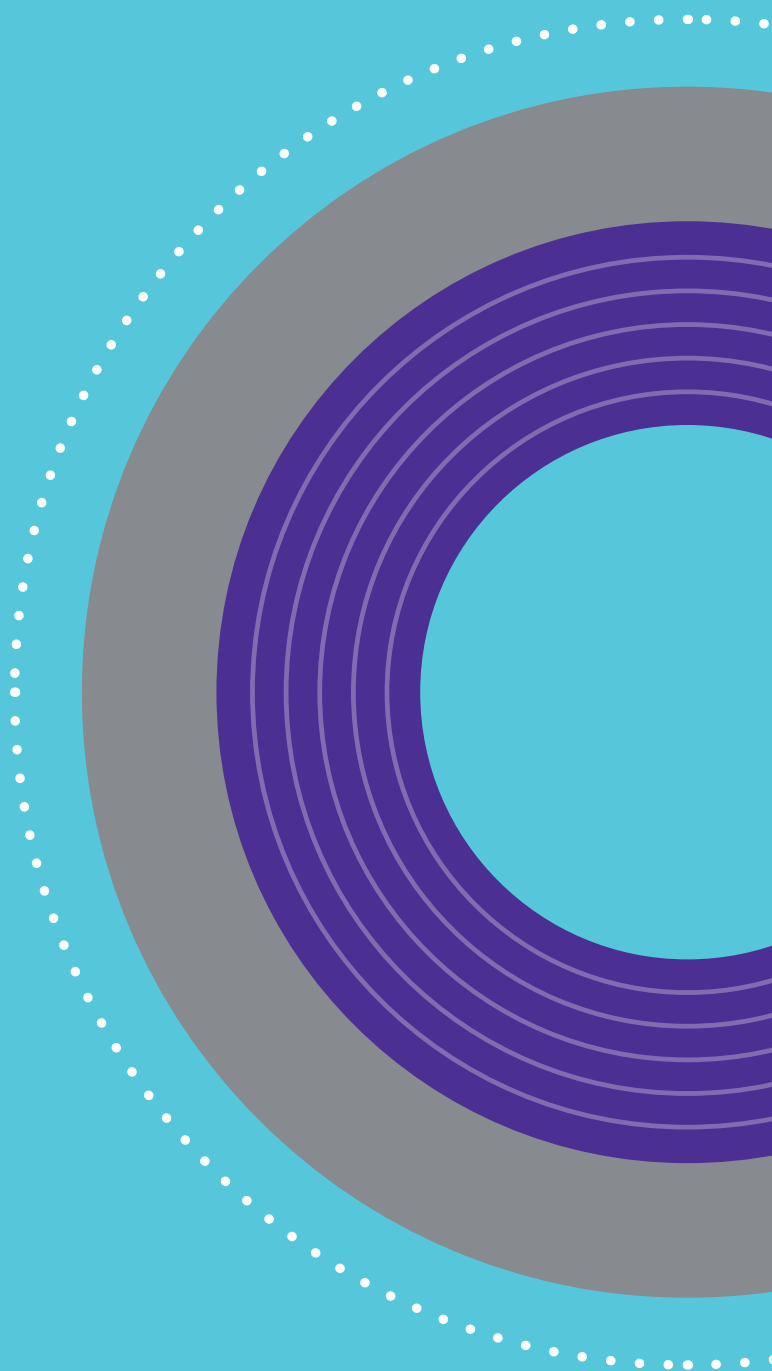
### **Joint Lead Managers**

National Australia Bank  
UBS  
Westpac Institutional Bank

### **Co-Managers**

Crestone Wealth Management  
JBWere

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# IMPORTANT NOTICES.

## ABOUT THIS PROSPECTUS

This Prospectus relates to the offer by Insurance Australia Group Limited (ABN 60 090 739 923) ("IAG") of perpetual, convertible, subordinated debt obligations in the form of unsecured notes ("Capital Notes") to raise \$300 million with the ability to raise more or less.

This Prospectus is issued under section 713 of the Corporations Act (as modified by ASIC Corporations (Offers of Convertibles) Instrument 2016/83) and is dated and was lodged with the Australian Securities and Investments Commission ("ASIC") on 21 November 2016. This Prospectus expires on the date which is 13 months after 21 November 2016 ("Expiry Date") and no Capital Notes will be issued on the basis of this Prospectus after the Expiry Date.

Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

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

This Prospectus is available in electronic form at [www.iag.com.au](http://www.iag.com.au). This Prospectus is available electronically only to persons accessing and downloading or printing it within Australia and is not available to persons in any other jurisdictions (including the United States) without the prior approval of IAG. If you access an electronic copy of this Prospectus, you should ensure you download and read the entire Prospectus. You can also request a free paper copy of this Prospectus during the Offer Period by calling the IAG Capital Notes Offer information line on 1300 647 382 (within Australia) or +61 3 9415 4123 (Monday to Friday – 8:30am to 5:00pm Sydney time). Applications for Capital Notes may only be made online or on an application form that is attached to or accompanying this Prospectus, following the opening of the Offer.

## OFFER AND ISSUER

The Capital Notes are issued by IAG, an ASX-listed company incorporated in Australia. IAG is the holding company of a group of general insurance businesses with established brands in Australia and New Zealand and a presence in Asia.

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

No subsidiary of IAG guarantees or is liable for the Capital Notes. This Prospectus describes the activities and the financial performance and position of the Group because:

- IAG's subsidiaries conduct substantially all of the insurance and other business of the Group and accordingly, the subsidiaries generate any profits that are distributed to IAG in order for IAG to meet its liabilities; and
- substantially all the assets of IAG represent shares in, or other claims on, IAG's subsidiaries. As a result, the financial position of IAG is a function of the consolidated net asset position of all of the Group subsidiaries, after satisfaction of their liabilities (including to policyholders).

See Sections 2, 6 and 7 for further information.

## STATUS OF THE CAPITAL NOTES

Capital Notes are issued by IAG under the Trust Deed and Capital Note Holders have no direct claim against IAG except as provided in the Trust Deed (which includes the Capital Notes Terms). The Capital Notes are not policy liabilities of any member of the Group or protected policies under the Insurance Act 1973 (Cth) ("Insurance Act") and are not guaranteed or insured by any government, government agency or compensation scheme. Capital Notes are unsecured notes for the purposes of section 283BH of the Corporations Act.

The risks associated with the Capital Notes (some of which are described in Section 5) could result in the loss of your investment and associated income. The investment performance of the Capital Notes is not guaranteed by IAG.

## EXPOSURE PERIOD

The Corporations Act prohibits IAG from processing Applications in the seven day period after the date of lodgement of this Prospectus ("Exposure Period"). The Exposure Period may be extended by ASIC by up to a further seven days. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

## FINANCIAL INFORMATION AND FORWARD LOOKING STATEMENTS

Section 4 sets out in detail the financial information referred to in this Prospectus along with the basis of preparation of that information.

All financial amounts contained in this Prospectus are expressed in Australian dollars and rounded to the nearest million unless otherwise stated. Any

discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

The financial information provided in this Prospectus is for information purposes only and is not a forecast of performance to be expected in future periods. Past performance is not a reliable indication of future performance.

This Prospectus contains forward looking statements which are identified by words such as "may", "could", "believes", "estimates", "expects", "intends" and other similar words that involve risks and uncertainties.

Any forward looking statements are subject to various risk factors that could cause actual circumstances or outcomes to differ materially from the circumstances or outcomes expressed, implied or anticipated in these statements. Forward looking statements should be read in conjunction with the risk factors as set out in Section 5, and other information in this Prospectus.

## DEFINED TERMS AND ABBREVIATIONS

Certain capitalised terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary in Appendix B and in the terms and conditions of the Capital Notes as set out in Appendix A. If there is any inconsistency in definitions between Appendix A and Appendix B, the definitions in Appendix A prevail.

Unless otherwise stated or implied, references to times in this Prospectus are to Sydney time. Unless otherwise stated or implied, references to \$, A\$, dollars and cents is to Australian currency.

## INFORMATION IN THIS PROSPECTUS

All information in this Prospectus, while subject to change, is current as at the date of this Prospectus unless otherwise indicated.

## DISCLAIMER

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Prospectus. You should rely only on information in this Prospectus.

Except as required by law, and only to the extent so required, neither IAG nor any other person warrants or guarantees the future performance of IAG, or any return on any investment made pursuant to this Prospectus.





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# CHAIRMAN'S LETTER.

21 November 2016

Dear Investor

On behalf of the Directors, it is my pleasure to invite you to apply for Capital Notes.

IAG is the ASX-listed parent company of a general insurance group with operations and joint ventures in Australia, New Zealand and Asia. Its businesses underwrote over \$11 billion of premium in the financial year ending 30 June 2016, selling insurance under many established brands and employing more than 15,000 people.

Capital Notes are perpetual, convertible, subordinated unsecured notes to be issued by IAG on the terms outlined in this Prospectus, and will meet the Australian Prudential Regulation Authority ("APRA") criteria for Additional Tier 1 Capital. IAG will apply for the Capital Notes to be quoted on ASX. The Capital Notes are scheduled to pay discretionary quarterly distributions which are expected to be fully franked.

At IAG's option, the Capital Notes may be Converted, Redeemed or Resold ("Exchanged") on 15 June 2023 or earlier in certain circumstances, subject to APRA's prior written approval (and you should not assume that APRA's approval will be given if requested). If still outstanding, the Capital Notes will, subject to certain

conditions, Mandatorily Convert into IAG Ordinary Shares on 16 June 2025. If the conditions are not met on 16 June 2025 they will be re-tested on certain later dates. It is possible the Capital Notes may remain on issue indefinitely. Additionally, APRA can require the Capital Notes to be Converted or Written-Off at any time if certain events occur which may adversely affect your investment.

IAG intends to raise \$300 million through the Offer but may elect to raise more or less.

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

This Prospectus contains details of the Offer which you should read carefully. The Capital Notes are complex and involve more risks than simple debt or ordinary equity instruments. Trading volumes in hybrid instruments such as the Capital Notes are typically lower than those in Ordinary Shares.

In particular, you should consider the risk factors set out in Section 5. IAG strongly recommends that you seek professional advice which takes into

account your particular investment objectives and circumstances from a licensed adviser before deciding whether to apply to participate in the Offer. If you have any questions about the Offer, please see [www.iag.com.au](http://www.iag.com.au) or call the IAG Capital Notes Offer information line on **1300 647 382** (within Australia) or **+61 3 9415 4123** (Monday to Friday – 8:30am to 5:00pm Sydney time).

If you currently hold IAG convertible preference shares issued in 2012 ("CPS"), you may be eligible to reinvest your CPS into Capital Notes through the alternatives outlined in Section 6. IAG currently has an option to buy-back or convert the CPS on 1 May 2017 and will consider buying back the outstanding CPS on that date, subject to various factors (including satisfactory completion of the Offer and market conditions closer to 1 May 2017).

On behalf of the Directors, I look forward to welcoming you as a Capital Note Holder.

Yours sincerely

Elizabeth Bryan AM  
Chairman

# GUIDANCE FOR RETAIL INVESTORS.

## 1. Read this Prospectus in full

This Prospectus is important and you should read it in its entirety.

In considering whether to apply for Capital Notes, it is important you consider all risks and other information regarding an investment in Capital Notes in light of your particular investment objectives and circumstances, as the Offer and the information in this Prospectus do not take into account those objectives and circumstances.

The Capital Notes are complex and involve more risks than simple debt or ordinary equity instruments. The Capital Notes are not suitable for all investors.

## 2. Speak to your professional adviser

The overall complexity of the Capital Notes may make the Capital Notes Terms difficult to understand.

IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser before deciding whether to apply to participate in the Offer.

ASIC has published guidance on how to choose a licensed adviser on its MoneySmart website. You can also search 'choosing a financial adviser' at [www.moneysmart.gov.au](http://www.moneysmart.gov.au).

## 3. Consider the ASIC guidance for retail investors

ASIC has published guidance on hybrid securities on its MoneySmart website which may be relevant to your consideration of the Capital Notes. You can find this guidance by searching 'hybrid securities' at [www.moneysmart.gov.au](http://www.moneysmart.gov.au). The guidance includes a series of questions you should ask before you invest in hybrid securities, as well as a short quiz to check your understanding of how hybrids work, their features and risks.

## 4. Obtain further information about IAG and the Capital Notes

IAG is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. IAG must notify ASX immediately (subject to certain exceptions) if it becomes aware of information about IAG that a reasonable person would expect to have a material effect on the price or value of its securities including the Capital Notes.

Copies of documents lodged with ASIC which are publicly available can be obtained from ASIC's website [www.asic.gov.au](http://www.asic.gov.au) (a fee may apply) and IAG's ASX announcements may be viewed at [www.asx.com.au](http://www.asx.com.au).

## 5. Enquiries

If you have any questions in relation to the Offer or an Application, please see [www.iag.com.au](http://www.iag.com.au), call the IAG Capital Notes Offer information line on 1300 647 382 (within Australia) or +61 3 9415 4123 (Monday to Friday – 8:30am to 5:00pm Sydney time), or contact your Syndicate Broker.

# KEY DATES.

Key dates for the Offer	Date
Lodgement of this Prospectus with ASIC	21 November 2016
Bookbuild to determine the Margin	28 November 2016
Announcement of the Margin	29 November 2016
Opening Date and lodgement of the replacement prospectus with ASIC	29 November 2016
Closing Date for the Broker Firm Offer (excluding applications to reinvest CPS)	10:00 am Sydney time on 21 December 2016
Issue Date	22 December 2016
Commencement of deferred settlement trading	23 December 2016
Last date for despatch of Holding Statements	29 December 2016
Commencement of normal settlement trading	30 December 2016
Key dates for the Capital Notes	
First Distribution Payment Date	15 March 2017
Optional Exchange Date	15 June 2023
Mandatory Conversion Date	16 June 2025
Key dates for CPS holders	
Record date for determining Eligible CPS Holders for the Reinvestment Offer	7:00pm Sydney time on 18 November 2016
Opening Date for the Reinvestment Offer	29 November 2016
Closing Date for the Reinvestment Offer	5:00pm Sydney time on 16 December 2016
Closing Date for the Broker Firm Offer (applications to reinvest CPS)	5:00pm Sydney time on 16 December 2016
Reinvested CPS Buy-Back Date and payment date for Pro Rata Dividend on Reinvested CPS	22 December 2016
First optional exchange date for remaining CPS	1 May 2017

## DATES MAY CHANGE

These dates are indicative only and may change. IAG will announce any such change to ASX.

IAG and the Joint Lead Managers may agree to vary the timetable, including extending any Closing Date, closing the Offer early, accepting late Applications, whether generally or in particular cases, or withdrawing the Offer at any time before the Capital Notes are issued, at their discretion.

You are encouraged to apply as soon as possible after the Opening Date.

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# INVESTMENT OVERVIEW.

This section provides a summary of the key features and risks of investing in the Capital Notes. Detailed information about these matters is provided in this Prospectus, and it is important that you read this Prospectus in full before deciding whether to apply for Capital Notes. If you have any questions, IAG strongly recommends that you seek professional guidance which takes into account your particular investment objectives and circumstances from a licensed adviser.

## 1.1 KEY FEATURES OF THE OFFER AND THE CAPITAL NOTES

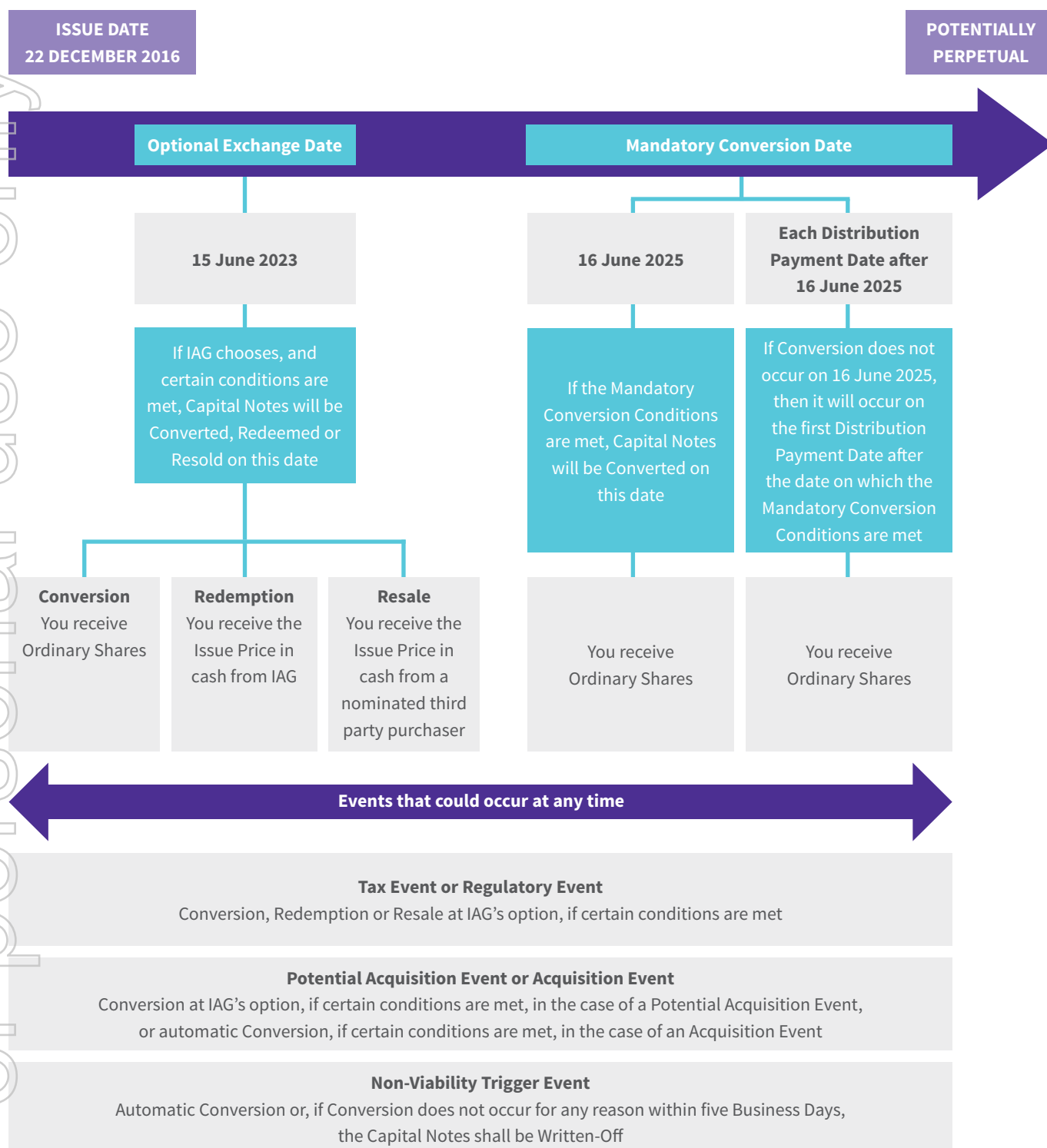
Topic	Summary	Further information
Issuer	Insurance Australia Group Limited.	Section 3
Type of instrument	<ul style="list-style-type: none"> <li>Capital Notes are: <ul style="list-style-type: none"> <li><b>fully paid</b> – at \$100 per Capital Note;</li> <li><b>perpetual</b> – the Capital Notes do not have any fixed maturity date and you may not receive your capital back or receive any Ordinary Shares;</li> <li><b>Redeemable and Resalable</b> – in certain circumstances, IAG may Redeem the Capital Notes by paying an amount equal to their Issue Price or may require Capital Note Holders to Resell their Capital Notes to a third party in exchange for a cash amount equal to their Issue Price (but there are significant restrictions on Redemption or Resale of the Capital Notes);</li> <li><b>convertible</b> – in certain circumstances, the Capital Notes will Convert into Ordinary Shares;</li> <li><b>subordinated</b> – although Capital Notes have priority over Ordinary Shares and rank equally with Equal Ranking Instruments, they are subordinated to the claims of Senior Ranking Creditors in a winding-up of IAG;</li> <li><b>unsecured</b> – Capital Notes are not guaranteed or secured, are not policy liabilities of any member of the Group and are not protected policies for the purposes of the Insurance Act;</li> <li><b>exposed to Non-Viability Trigger Events</b> – if a Non-Viability Trigger Event occurs at APRA's discretion (which may include serious impairment of IAG's financial position), the Capital Notes are subject to Conversion into Ordinary Shares or Write-Off, in which case Capital Note Holders are likely to suffer a material loss; and</li> <li><b>quoted</b> – IAG has applied for Capital Notes to be quoted on ASX and Capital Notes are expected to trade under ASX code "IAGPD".</li> </ul> </li> <li>The Capital Notes Terms are complex and include features to comply with the detailed regulatory capital requirements which APRA applies to these types of securities and to qualify as rating agency equity credit. IAG's ability to pay a Distribution or to Exchange the Capital Notes at its option are in each case subject to a number of restrictions, including, in the case of a payment of a Distribution, APRA not objecting to the Distribution payment and, in the case of Exchange, APRA giving its prior written approval to the Exchange. Capital Note Holders should not assume that APRA's approval will be given if requested.</li> </ul>	Section 2
Issue Price	<ul style="list-style-type: none"> <li>\$100 per Capital Note. This is the price you need to pay to apply for each Capital Note under the Prospectus.</li> </ul>	
Purpose of the Offer	<ul style="list-style-type: none"> <li>The Offer is to raise Additional Tier 1 Capital as part of IAG's capital management strategy. IAG will use the proceeds of the Offer to refinance some CPS and for general corporate purposes.</li> </ul>	

Distributions	<ul style="list-style-type: none"> <li>Distributions are cash payments on the Capital Notes which are scheduled to be paid quarterly until all Capital Notes are Converted, Redeemed or Written-Off.</li> <li>The Distribution Rate is calculated in accordance with the following formula:  Distribution Rate = <b>(Bank Bill Rate + Margin)</b> × (1 – <b>Tax Rate</b>)  where: <ul style="list-style-type: none"> <li><b>Bank Bill Rate</b> is the 3 month Bank Bill Rate (described in Section 2.1.3) on the first Business Day of the relevant Distribution Period;</li> <li><b>Margin</b> is expected to be in the range of 4.70 – 4.90%, to be determined under the Bookbuild; and</li> <li><b>Tax Rate</b> is the Australian corporate tax rate applicable to the franking account of IAG as at the relevant Distribution Payment Date. As at the date of this Prospectus, the Tax Rate is 30%.</li> </ul> </li> </ul>	Section 2.1
Franking	<ul style="list-style-type: none"> <li>Distributions paid on the Capital Notes are expected to be fully franked. The effect of the Distributions being franked is to reduce the cash amount received by Capital Note Holders on each Distribution Payment Date by an amount equal to the relevant level of franking. If IAG pays a Distribution and the Distribution is not fully franked, the amount of this cash distribution will be increased to compensate the Capital Note Holder for the unfranked component subject to the Payment Conditions being satisfied.</li> </ul>	Section 2.1.5
Distribution Payment Dates	<ul style="list-style-type: none"> <li>The Distribution Payment Dates are 15 March, 15 June, 15 September and 15 December or, if any of those dates are not Business Days, the next day which is a Business Day.</li> <li>The first Distribution is scheduled to be paid on 15 March 2017.</li> </ul>	Section 2.1.6
Payment of Distributions	<ul style="list-style-type: none"> <li>Payments of Distributions are at the absolute discretion of IAG, which means IAG does not have to pay them. Distributions are also only payable if the Payment Conditions are satisfied.</li> <li>Distributions are non-cumulative which means that Capital Note Holders will not have any claim or right to compensation if IAG does not pay a Distribution. Failure to pay a Distribution when scheduled will not constitute an event of default.</li> <li>If a Distribution is not paid in full on a Distribution Payment Date, subject to certain exceptions, IAG cannot pay or declare or determine to pay any Ordinary Share Dividend, or undertake any buy-back or capital reduction, until and including the next Distribution Payment Date (unless the Distribution is paid in full within three Business Days of the Distribution Payment Date).</li> </ul>	Sections 2.1.7 to 2.1.10
No maturity date for Capital Notes	<ul style="list-style-type: none"> <li>Capital Note Holders should be aware that the Capital Notes do not have a fixed maturity date. While the Capital Notes are scheduled to Convert into Ordinary Shares on 16 June 2025, that Conversion is subject to conditions which may never be met. The Capital Notes could remain on issue indefinitely. Capital Note Holders have no right to request or require an Exchange.</li> <li>It is expected that the Capital Notes will be quoted on ASX. Unless an Exchange occurs, Capital Note Holders would need to sell their Capital Notes on ASX at the prevailing market price to realise their investment. That market price may be less than the Issue Price, or there may be no liquid market in the Capital Notes which may result in the Capital Note Holders suffering a loss.</li> </ul>	Section 5.1.6
Regulatory treatment	<ul style="list-style-type: none"> <li>APRA has confirmed that the Capital Notes will constitute Additional Tier 1 Capital for the purposes of IAG's regulatory capital requirements.</li> </ul>	Section 2.6



## 1.2 SUMMARY OF EVENTS THAT MAY AFFECT THE CAPITAL NOTES

The diagram and table below summarise certain events that may occur while the Capital Notes are on issue, and what Capital Note Holders may receive if those events occur. If none of these events occurs, the Capital Notes could remain on issue indefinitely and the Issue Price will not be repaid.



The table below provides further summary details about events that may affect what Capital Note Holders may receive in relation to the Capital Notes under the Capital Notes Terms.

Event	When could it occur?	Is APRA approval required? <sup>1</sup>	Do conditions apply?	What value will you receive?	How will that value be provided?
<b>Mandatory Conversion</b>					
Mandatory Conversion	16 June 2025 <sup>2,3</sup>	No	Yes	Approximately \$101 per Capital Note <sup>4</sup>	Variable number of Ordinary Shares
<b>Optional Exchange by IAG<sup>5</sup></b>					
Optional Conversion	15 June 2023 <sup>3,6</sup>	Yes	Yes	Approximately \$101 per Capital Note <sup>4</sup>	Variable number of Ordinary Shares
Optional Redemption	15 June 2023 <sup>3,6</sup>	Yes	Yes	\$100 per Capital Note	Cash
Optional Resale	15 June 2023 <sup>3,6</sup>	Yes	Yes	\$100 per Capital Note	Cash
<b>Exchange in other circumstances<sup>5</sup></b>					
Conversion in other circumstances	If a Tax Event, Regulatory Event or Potential Acquisition Event occurs <sup>3</sup>	Yes	Yes	Approximately \$101 per Capital Note <sup>4,7</sup>	Variable number of Ordinary Shares
	If an Acquisition Event occurs <sup>3</sup>	No	Yes	Approximately \$101 per Capital Note <sup>4,7</sup>	Variable number of Ordinary Shares
	If a Non-Viability Trigger Event occurs	No	No	Depending on the market price of Ordinary Shares, Capital Note Holders are likely to receive significantly less than approximately \$101 per Capital Note <sup>4,8</sup>	Variable number of Ordinary Shares, up to a Maximum Conversion Number <sup>8</sup>
Redemption in other circumstances	If a Tax Event or Regulatory Event occurs <sup>3</sup>	Yes	Yes	\$100 per Capital Note <sup>7</sup>	Cash
Resale in other circumstances	If a Tax Event or Regulatory Event occurs <sup>3</sup>	Yes	Yes	\$100 per Capital Note <sup>7</sup>	Cash

<sup>1</sup> Capital Note Holders should not assume that APRA's approval will be given if requested.

<sup>2</sup> If that date is not a Business Day it is adjusted to the next Business Day. This date is expected to align with the June 2025 Distribution Payment Date. 15 June 2025 is not expected to be a Business Day, so the relevant Distribution Payment Date should be the next Business Day, being 16 June 2025.

<sup>3</sup> Mandatory Conversion, Optional Exchange, Exchange on a Tax Event or Regulatory Event occurring and Conversion on an Acquisition Event or a Potential Acquisition Event are subject to certain conditions and restrictions being met. If those conditions or restrictions are not met, the relevant Exchange may never occur.

<sup>4</sup> The number of Ordinary Shares received on Conversion is based on the Conversion calculations (using the VWAP during a period of time) and may be worth more or less than approximately \$101 per Capital Note (including because the market price of Ordinary Shares on the date they are received will likely be different from the VWAP used in the Conversion calculations). The number of Ordinary Shares that Capital Note Holders will receive will not be greater than the Maximum Conversion Number.

<sup>5</sup> Under the Capital Notes Terms, subject to certain conditions IAG has a choice as to the method of Exchange (Conversion, Redemption, Resale or a combination thereof) in respect of an Optional Exchange or the occurrence of a Tax Event or Regulatory Event. That choice will be made by IAG in its absolute discretion. Capital Note Holders do not have a right to request Exchange.

<sup>6</sup> If that date is not a Business Day it is adjusted to the next Business Day.

<sup>7</sup> If an Exchange occurs on a day that is not a scheduled quarterly Distribution Payment Date, Capital Note Holders whose Capital Notes are being Exchanged will also receive a Distribution in respect of these Capital Notes for the period from the immediately preceding Distribution Payment Date to (but excluding) the date on which the Exchange occurs (at IAG's discretion and provided the conditions to payment are met).




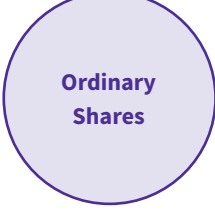
<sup>8</sup> If Conversion has not been effected within five Business Days after the relevant Trigger Event Date for any reason (including an Inability Event), the Capital Notes will be Written-Off. If a Capital Note is Written-Off, that Capital Note will never be Exchanged, all rights (including to Distributions) in respect of that Capital Note will be terminated, and the Capital Note Holder will not have their capital repaid. This means that, for example, unlike Ordinary Shareholders if the Capital Notes are Written-Off Capital Note Holders will have no rights to participate in a surplus of assets on a winding-up of IAG.

### 1.3 RANKING OF CAPITAL NOTES IN A WINDING-UP OF IAG

In a winding-up of IAG, Capital Notes rank ahead of Ordinary Shares, equally among themselves, equally with Equal Ranking Instruments (including the CPS and, if issued, RES Preference Shares) and behind all Senior Ranking Creditors, as shown in the table below.

The ranking of Capital Note Holders in a winding-up will be adversely affected if a Non-Viability Trigger Event occurs. If, following a Non-Viability Trigger Event, Capital Notes are Converted into Ordinary Shares, Capital Note Holders will have a claim as holders of Ordinary Shares. If, following a Non-Viability Trigger Event, Capital Notes are Written-Off, those Capital Notes will never be Exchanged, all rights in relation to those Capital Notes will be terminated, and Capital Note Holders will not have their capital repaid.

The table below illustrates how the Capital Notes would rank upon a winding-up of IAG, if they are on issue at the time. In the table, a 'higher ranking' claim is one which will be paid out of IAG's available assets in a winding-up before claims with a lower ranking. It may be that lower ranking securityholders, including Capital Note Holders, will be paid only part or none of the amounts owing to them (in the case of Capital Note Holders, the claim for the Issue Price), as there may be insufficient assets remaining to make such payments after higher ranking claims have been paid.

Ranking	Illustrative examples	
Higher		Liabilities preferred by law including employee entitlements and secured creditors
		Bonds and notes, and trade and general creditors
		Subordinated unsecured debt obligations
		<b>Capital Notes</b> , CPS, RES Preference Shares (if issued), and any securities expressed to rank equally with Capital Notes
Lower		Ordinary Shares

\* This includes Tier 2 Capital instruments issued or guaranteed by IAG before 1 January 2013 and Tier 2 Capital instruments issued in compliance with the Prudential Standards issued on 1 January 2013. Tier 2 Capital issued in compliance with the Prudential Standards issued on 1 January 2013 ranks lower than pre-2013 Tier 2 Capital, but senior to perpetual subordinated instruments such as the Capital Notes.

IAG is a non-operating holding company and substantially all its assets are made up of shares in, or other claims on, IAG's subsidiaries. Accordingly, the claims of Capital Note Holders against IAG will be limited to the value of IAG's residual claims to the net assets (if any) of the subsidiaries, after all liabilities, including liabilities to policyholders, have been discharged or provided for.

## 1.4 COMPARISON BETWEEN CAPITAL NOTES AND OTHER TYPES OF INVESTMENTS

Capital Notes are different from other types of investments such as term deposits and ordinary shares. The table below compares the key features of the Capital Notes to some other types of investments in the Group and term deposits issued by an APRA-regulated Authorised Deposit-taking Institution ("ADI") (generally a bank, credit union or building society)<sup>1</sup>. You should consider these differences in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding whether to apply for Capital Notes. IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser. For a more detailed comparison of Capital Notes and CPS, refer to Section 6.2.

Feature	ADI term deposit	RES	CPS	Capital Notes	Ordinary Shares
<b>ASX code</b>	Not quoted on ASX	IANG	IAGPC	Expected to be IAGPD	IAG
<b>Issuer</b>	Bank, credit union or building society <sup>1</sup>	IAG Finance (New Zealand) Limited	Insurance Australia Group Limited	Insurance Australia Group Limited	Insurance Australia Group Limited
<b>Legal form</b>	Unsecured, unsubordinated debt in respect of an account	Unsecured, subordinated debt obligation	Preference share	Unsecured, subordinated note	Ordinary share
<b>Maturity</b>	Usually one month to five years	Perpetual	Perpetual	Perpetual	Perpetual
<b>Ranking in winding-up</b>	Senior to instruments equivalent to Capital Notes	If exchanged into RES Preference Shares, pari passu to Capital Notes <sup>2</sup>	Equally with Capital Notes	Equally with CPS	Junior to Capital Notes
<b>Protected under the Financial Claims Scheme<sup>3</sup></b>	Yes <sup>4</sup>	No	No	No	No
<b>Transferable on market</b>	No	Yes	Yes	Yes	Yes
<b>Distribution rate</b>	Usually a fixed rate for the term of the deposit	3 month bank bill rate + 4.00% until 16 December 2019 <sup>5</sup>	6 month bank bill rate + 4.00%	3 month Bank Bill Rate + 4.70 – 4.90% as determined under the Bookbuild	Variable dividends
<b>Distribution frequency</b>	Monthly, quarterly, semi-annually or annually (depending on the choice of the customer)	Quarterly	Semi-annually	Quarterly	Semi-annually
<b>Distribution discretionary</b>	No	Yes	Yes	Yes	Yes
<b>Distribution cumulative</b>	Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative

Feature	ADI term deposit	RES	CPS	Capital Notes	Ordinary Shares
<b>Restriction on Ordinary Share Dividends if distribution not paid</b>	No	Yes	Yes	Yes	n/a
<b>Franking</b>	Unfranked	Expected to be fully franked	Expected to be fully franked	Expected to be fully franked	Expected to be fully franked
<b>Issuer's optional redemption</b>	No	Yes, on 21 December 2019 (subject to certain conditions)	Yes, on 1 May 2017 (subject to certain conditions)	Yes, on 15 June 2023 (subject to certain conditions)	No
<b>Issuer's optional resale</b>	No	Yes	No	Yes, on 15 June 2023 (subject to certain conditions)	No
<b>Issuer's optional conversion</b>	No	Yes	Yes	Yes, on 15 June 2023 (subject to certain conditions)	n/a
<b>Mandatory conversion</b>	No	No <sup>6</sup>	Yes	Yes	n/a
<b>Non-viability conversion</b>	No	No	Yes	Yes	n/a
<b>Treated as regulatory capital</b>	No	Yes, partially as Additional Tier 1 Capital and Tier 2 Capital until 16 December 2019	Yes Additional Tier 1 Capital until 1 May 2017	Yes Additional Tier 1 Capital	Yes Common Equity Tier 1 Capital

<sup>1</sup> No member of the Group offers term deposits.

<sup>2</sup> RES are issued by IAG Finance (New Zealand) Limited and, unless exchanged into RES Preference Shares, confer no claim on IAG.

<sup>3</sup> Established for ADIs in respect of certain accounts under Part 2 Division 2AA of the Banking Act 1959 (Cth) and for general insurers in respect of certain policies under Part VC of the Insurance Act. None of the investments in the Group listed in this table are protected policies under the Insurance Act.

<sup>4</sup> Up to \$250,000 in aggregate across all protected accounts that an account holder has with an Australian ADI to which the relevant Minister declares the Financial Claims Scheme applies.

<sup>5</sup> There is a provision under the terms of the RES for resetting the margin on this date.

<sup>6</sup> Holders of RES may request conversion when the margin is reset and IAG may convert, redeem or resell RES in response to this request.

## 1.5 KEY RISKS ASSOCIATED WITH THE CAPITAL NOTES

Before applying for the Capital Notes, you should consider whether the Capital Notes are a suitable investment for you. There are risks associated with an investment in the Capital Notes and in IAG, many of which are outside the control of IAG and its Directors. These risks include those described in this Section 1.5 and more fully in Section 5, and other matters referred to in this Prospectus.

Topic	Summary	Further information
<b>Market price of the Capital Notes</b>	<p>The price at which Capital Note Holders are able to sell the Capital Notes on ASX is uncertain. The market price might be below the Issue Price of \$100 per Capital Note.</p> <p>Circumstances in which the price of the Capital Notes may decline include general financial market conditions, the availability of better rates of return on other securities and investor perception of IAG's financial performance or position.</p> <p>Unlike Ordinary Shares, the Capital Notes do not provide a material exposure to growth in the Group's business.</p>	Section 5.1.1
<b>Liquidity</b>	<p>There may be no liquid market for the Capital Notes.</p> <p>Capital Note Holders who wish to sell their Capital Notes may be unable to do so at a price acceptable to them, or at all.</p>	Section 5.1.2
<b>Fluctuation in Ordinary Share price</b>	<p>The market price of Ordinary Shares may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions and IAG's financial performance and position. As a result, the value of Ordinary Shares received by Capital Note Holders upon Conversion may be greater than or less than anticipated when they are issued or thereafter.</p>	Section 5.1.3
<b>Distributions may not be paid</b>	<p>There is a risk that Distributions may not be paid.</p> <p>Distributions are discretionary and are only payable subject to no Payment Condition existing in respect of the relevant Distribution Payment Date.</p> <p>Distributions are non-cumulative. Accordingly, in the event that IAG does not pay a scheduled Distribution, a Capital Note Holder has no entitlement to that Distribution.</p> <p>Non-payment of a Distribution is not an event of default.</p>	Section 5.1.4
<b>Changes in Distribution Rate</b>	<p>The Distribution Rate will fluctuate (it may increase and/or decrease) over time as a result of movements in the Bank Bill Rate.</p> <p>The Distribution Rate will also fluctuate with any change in the rate of franking of Distributions.</p> <p>There is a risk that the Distribution Rate may become less attractive when compared with the rates of return available on comparable securities.</p>	Section 5.1.5
<b>Uncertainty regarding the Exchange of Capital Notes</b>	<p>There are a number of scenarios in which the Capital Notes may be Exchanged. It is uncertain whether and when Exchange may occur. The timing of any Exchange may not suit Capital Note Holders.</p> <p>The Capital Notes are perpetual and have no fixed maturity date. The Capital Notes may not be Exchanged at all, in which case they may remain on issue indefinitely and you may not receive your capital back or receive any Ordinary Shares.</p>	Sections 5.1.6 to 5.1.11

Topic	Summary	Further information
No right for Capital Note Holders to request Exchange	Capital Note Holders have no right to request that their Capital Notes be Exchanged. Unless their Capital Notes are Exchanged, to realise their investment, Capital Note Holders would need to sell their Capital Notes on ASX at the prevailing market price. That price may be less than the Issue Price, and there may be no liquid market in the Capital Notes. The Capital Notes Terms contain no events of default.	Section 5.1.7
Conversion on account of a Non-Viability Trigger Event	<p>If Conversion occurs following a Non-Viability Trigger Event, you may receive Ordinary Shares worth significantly less than approximately \$101 per Capital Note.</p> <p>In cases where Conversion has not been effected within five Business Days after the Trigger Event Date for any reason (including an Inability Event), Capital Notes which should have been Converted will be Written-Off. This means that all rights in relation to these Capital Notes will be terminated (and Capital Note Holders will not get their capital back or receive compensation).</p>	Section 5.1.8
Restrictions on rights and ranking in a winding-up of IAG	<p>In a winding-up of IAG, the Capital Notes rank for payment ahead of Ordinary Shares, equally with Equal Ranking Instruments (which include CPS and RES Preference Shares (if issued)), but behind all Senior Ranking Creditors.</p> <p>If there is a shortfall of funds on a winding-up of IAG to pay all amounts ranking senior to and equally with the Capital Notes, Capital Note Holders will lose all or some of their investment.</p> <p>If the Capital Notes have been Converted into Ordinary Shares prior to a winding-up of IAG, the Ordinary Shares received on Conversion will rank equally with other Ordinary Shares. As such, a holder's claim in a winding-up of IAG will rank lower than it would have if the Capital Notes had not been Converted. If Capital Notes are Written-Off, those Capital Notes will never be Exchanged and therefore the Capital Note Holders will not get their capital back or receive compensation.</p> <p>IAG is a non-operating holding company and substantially all its assets are made up of shares in, or other claims on, IAG's subsidiaries. Accordingly, the claims of Capital Note Holders against IAG will be limited to the value of IAG's residual claims to the net assets (if any) of the subsidiaries, after all liabilities, including to policyholders, have been discharged or provided for.</p>	Section 5.1.12
Further issues or redemptions of securities by IAG	There is no limit on the amount of senior debt or other obligations or securities that may be incurred or issued by IAG at any time, which may affect a Capital Note Holder's ability to be repaid on a winding-up of IAG.	Section 5.1.13
IAG's financial performance and position	<p>The market price of the Capital Notes (and the Ordinary Shares into which they can Convert) may be affected by IAG's financial performance and position. For specific risks associated with an investment in IAG, see Section 5.2.</p> <p>IAG's financial performance and position may also affect the credit rating associated with IAG's securities, which may impact the market price and liquidity of the Capital Notes. IAG's credit rating may be revised, withdrawn or suspended by rating agencies at any time.</p>	Section 5.2



## 1.6 WHAT IS THE OFFER AND HOW DO I APPLY?

Topic	Summary	Further information
Offer structure	<ul style="list-style-type: none"> <li>The Offer comprises: <ul style="list-style-type: none"> <li>an Institutional Offer to Institutional Investors;</li> <li>a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers; and</li> <li>a Reinvestment Offer made to Eligible CPS Holders.</li> </ul> </li> <li>Applications from Eligible CPS Holders under the Reinvestment Offer can be made either: <ul style="list-style-type: none"> <li>directly to IAG; or</li> <li>through a Syndicate Broker.</li> </ul> </li> <li>As there is no general offer, retail investors that are not Eligible CPS Holders, or Eligible CPS Holders that would like to apply for Capital Notes in excess of their current CPS holding, will need to apply through a Syndicate Broker.</li> </ul>	Section 7
Reinvestment Offer for Eligible CPS Holders	<ul style="list-style-type: none"> <li>Under the Reinvestment Offer, Eligible CPS Holders may apply for some or all of the CPS registered in their name at 7:00pm on 18 November 2016 to be bought back early for \$100 each on 22 December 2016 and to have the buy-back proceeds (i.e. \$100 per CPS) applied to the Application Payment for Capital Notes.</li> <li>You are an Eligible CPS Holder if you were a registered holder of CPS at 7:00pm on 18 November 2016 and shown on the CPS register as having an address in Australia, and are not in the United States or acting as a nominee for a person in the United States.</li> <li>There are differences between CPS and Capital Notes, and Capital Notes may not suit your investment objectives, financial situation or particular needs. If you have any questions about the differences between CPS and Capital Notes, IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser before deciding whether to invest in Capital Notes.</li> </ul>	Section 6
Minimum application for Capital Notes	<ul style="list-style-type: none"> <li>Your Application must be for a minimum of 50 Capital Notes (\$5,000).</li> <li>Applications from Eligible CPS Holders may be smaller in certain circumstances. See Section 6.1.8 for further details.</li> </ul>	Section 7.2
Allocation of Capital Notes	<ul style="list-style-type: none"> <li>Allocations to Institutional Investors and Syndicate Brokers will be determined by IAG in consultation with the Joint Lead Managers.</li> <li>IAG (at its discretion and in consultation with the Joint Lead Managers) reserves the right to scale back Applications from CPS holders.</li> </ul>	Section 7.3.7
How to apply	<ul style="list-style-type: none"> <li>To apply for Capital Notes, you must complete an Application Form and follow the instructions in Section 7.</li> <li>If you are applying under the Reinvestment Offer, you should also read Section 6.</li> </ul>	Section 7
More information	<ul style="list-style-type: none"> <li>If you have any questions in relation to the Offer, please see <a href="http://www.iag.com.au">www.iag.com.au</a> or call the IAG Capital Notes Offer information line on 1300 647 382 (within Australia) or +61 3 9415 4123 (Monday to Friday – 8:30am to 5:00pm Sydney time).</li> <li>If you are a Broker Firm Applicant, you should contact your Syndicate Broker.</li> </ul>	

2

# ABOUT THE CAPITAL NOTES.


This section is intended to provide information about the key features of the Capital Notes. Where indicated, more detailed information is provided in other sections of this Prospectus.



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## 2.1 DISTRIBUTION PAYMENTS

Topic	Summary	Further information										
2.1.1 What are Distributions?	<ul style="list-style-type: none"><li>Distributions are discretionary, non-cumulative, floating rate payments and are scheduled to be paid quarterly in arrears on the Distribution Payment Dates until all Capital Notes are Exchanged or Written-Off.</li><li>Distributions are subject to no Payment Condition existing in respect of the relevant Distribution Payment Date.</li><li>To the extent a Distribution is franked, the cash amount of the Distribution will be lower than it would be if the Distribution were unfranked, reflecting the value of the franking credit attached to the Distribution.</li><li>Distributions are non-cumulative. If a Distribution or part of a Distribution is not paid on a Distribution Payment Date, Capital Note Holders will have no claim or entitlement in respect of non-payment and no right to receive that Distribution at a later time. Failure to pay a Distribution when scheduled will not constitute an event of default.</li></ul>	Clauses 3, 11.2(g) and 21.2 (“Payment Condition”) of the Capital Notes Terms										
2.1.2 How will the Distribution Rate be calculated?	<ul style="list-style-type: none"><li>The Distribution Rate for each quarterly distribution will be calculated using the following formula: Distribution Rate = <b>(Bank Bill Rate + Margin)</b> × (1 – <b>Tax Rate</b>) where:<ul style="list-style-type: none"><li><b>Bank Bill Rate</b> is the 3 month Bank Bill Rate (described in Section 2.1.3) on the first Business Day of the relevant Distribution Period;</li><li><b>Margin</b> is the margin to be determined under the Bookbuild; and</li><li><b>Tax Rate</b> is the Australian corporate tax rate applicable to the franking account of IAG at the relevant Distribution Payment Date. As at the date of this Prospectus, the Tax Rate is 30%.</li></ul></li></ul> <p>As an example, assuming the Bank Bill Rate for a Distribution Period is 1.755% per annum, the Margin is 4.70% per annum and the Tax Rate is 30%, then the Distribution Rate for that Distribution Period would be calculated as follows:</p> <table><tr><td>Bank Bill Rate</td><td>1.7550% per annum</td></tr><tr><td>plus Margin</td><td>4.7000% per annum</td></tr><tr><td>Equivalent unfranked distribution rate</td><td>6.4550% per annum</td></tr><tr><td>Multiplied by (1 – Tax Rate)</td><td>× 0.70</td></tr><tr><td>Fully franked Distribution Rate</td><td>4.5185% per annum</td></tr></table>	Bank Bill Rate	1.7550% per annum	plus Margin	4.7000% per annum	Equivalent unfranked distribution rate	6.4550% per annum	Multiplied by (1 – Tax Rate)	× 0.70	Fully franked Distribution Rate	4.5185% per annum	Clause 3.1 of the Capital Notes Terms
Bank Bill Rate	1.7550% per annum											
plus Margin	4.7000% per annum											
Equivalent unfranked distribution rate	6.4550% per annum											
Multiplied by (1 – Tax Rate)	× 0.70											
Fully franked Distribution Rate	4.5185% per annum											

Topic	Summary	Further information
<p><b>2.1.3</b> What is the Bank Bill Rate?</p>	<ul style="list-style-type: none"> <li>The Bank Bill Rate is a benchmark floating interest rate for the Australian money market. It is currently based on an average of rates for a 3 month term obtained from approved trading venues by the Australian Financial Markets Association. The Bank Bill Rate changes to reflect supply and demand within the cash and currency markets.</li> <li>The Bank Bill Rate in respect of a Distribution Period will be the 3 month rate displayed on Reuters page BBSW (or any page which replaces that page) on the first Business Day of that Distribution Period.</li> <li>The graph below illustrates the movement in the Bank Bill Rate over the last 20 years. The rate on 14 November 2016 was 1.755% per annum.</li> </ul> <div data-bbox="443 663 1171 710"> <p><b>3 month Bank Bill Rate (per annum)</b></p>  </div> <ul style="list-style-type: none"> <li>The above graph is for illustrative purposes only and does not indicate, guarantee or forecast the actual Bank Bill Rate. The actual Bank Bill Rate for the first and any subsequent Distribution Periods may be higher or lower than the rates in the above graph, and there is no guarantee that the Bank Bill Rate will be greater than zero throughout the life of the Capital Notes. If the Bank Bill Rate is negative, the Distribution Rate will be reduced by taking account of the negative value of that rate in the calculation of the Distribution Rate as set out in Section 2.1.2 (but there is no obligation on Capital Note Holders to pay IAG if the Distribution Rate were to become negative).</li> </ul>	<p>Clause 3.1 of the Capital Notes Terms</p>

Topic	Summary	Further information										
2.1.4 How will the Distribution be calculated for each Distribution Period?	<ul style="list-style-type: none"><li>Distributions scheduled to be paid on each Distribution Payment Date will be calculated using the following formula: <math display="block">\frac{\text{Distribution on each Capital Note}}{\text{Capital Note}} = \frac{\text{Distribution Rate} \times \\$100 \times N}{365}</math>where:<ul style="list-style-type: none"><li><b>Distribution Rate</b> means the rate (expressed as a percentage per annum) calculated as set out in Section 2.1.2; and</li><li><b>N</b> means the number of days in the Distribution Period calculated as set out in the Capital Notes Terms.</li></ul></li></ul> <p>Following the formula above, if the fully franked Distribution Rate were 4.5185% per annum, then the cash Distribution on each Capital Notes for a Distribution Period of 90 days (e.g. the second Distribution Period) would be calculated as follows:</p> <table><tr><td>Fully franked Distribution Rate</td><td>4.5185% per annum</td></tr><tr><td>Multiplied by \$100</td><td>× \$100</td></tr><tr><td>Multiplied by the number of days in the Distribution Period<sup>1</sup></td><td>× 90</td></tr><tr><td>Divided by 365</td><td>÷ 365</td></tr><tr><td>Fully franked Distribution payment on each Capital Note</td><td>\$ 1.1142</td></tr></table> <p>The above example is for illustrative purposes only and does not indicate, guarantee or forecast the actual Distribution payment for the first or any subsequent Distribution Period. Actual Distribution payments may be higher or lower than this example. The Distribution Rate for the first Distribution Period will be set on the Issue Date and will include the Margin to be determined under the Bookbuild.</p>	Fully franked Distribution Rate	4.5185% per annum	Multiplied by \$100	× \$100	Multiplied by the number of days in the Distribution Period <sup>1</sup>	× 90	Divided by 365	÷ 365	Fully franked Distribution payment on each Capital Note	\$ 1.1142	Clauses 3.1 and 3.5 of the Capital Notes Terms
Fully franked Distribution Rate	4.5185% per annum											
Multiplied by \$100	× \$100											
Multiplied by the number of days in the Distribution Period <sup>1</sup>	× 90											
Divided by 365	÷ 365											
Fully franked Distribution payment on each Capital Note	\$ 1.1142											

<sup>1</sup> Distribution Periods will generally contain 90 to 92 days, except for the first Distribution Period which will contain only 83 days.

Topic	Summary	Further information														
2.1.5 What is the impact of franking credits?	<ul style="list-style-type: none"><li>Distributions are expected to be fully franked. The franking credits represent a Capital Note Holder’s share of tax paid by IAG on the profits from which the cash Distribution is paid.</li><li>Capital Note Holders are expected to receive a combination of cash Distributions and franking credits until all Capital Notes are Exchanged or Written-Off. The level of franking may vary over time and Distributions may be partially franked, fully franked or not franked at all.</li><li>If any Distribution is not franked or only partially franked, the amount of the cash Distribution will be increased to compensate for the unfranked component, subject to no Payment Conditions existing. Clause 3.2 of the Capital Notes Terms sets out the method of calculation for the additional payment.</li><li>For example, if the franking rate applicable to the Distribution were only 90%, then the cash Distribution on each Capital Note for the Distribution Period (if the Distribution Period was 90 days) would be calculated as follows:</li></ul> <table><tr><td>Fully franked Distribution Rate</td><td>4.5185% per annum</td></tr><tr><td>Multiplied by \$100</td><td>× \$100</td></tr><tr><td>Multiplied by the number of days in the Distribution Period</td><td>× 90</td></tr><tr><td>Divided by 365</td><td>÷ 365</td></tr><tr><td>Sub-total</td><td>\$ 1.1142</td></tr><tr><td>Divided by 1 – (Tax Rate × (1 – franking rate))</td><td>÷ 0.97</td></tr><tr><td>Partially franked Distribution payment on each Capital Note</td><td>\$ 1.1486</td></tr></table> <ul style="list-style-type: none"><li>Capital Note Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Distribution. Capital Note Holders should also be aware that the ability to use the franking credits, either as an offset to a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each Capital Note Holder.</li><li>If the corporate tax rate were to change, the cash amount of Distributions and the amount of any franking credits will change.</li><li>Capital Note Holders should refer to the Australian taxation summary in Section 8 and seek professional advice in relation to their tax position.</li></ul>	Fully franked Distribution Rate	4.5185% per annum	Multiplied by \$100	× \$100	Multiplied by the number of days in the Distribution Period	× 90	Divided by 365	÷ 365	Sub-total	\$ 1.1142	Divided by 1 – (Tax Rate × (1 – franking rate))	÷ 0.97	Partially franked Distribution payment on each Capital Note	\$ 1.1486	Clause 3.2 of the Capital Notes Terms  Section 8
Fully franked Distribution Rate	4.5185% per annum															
Multiplied by \$100	× \$100															
Multiplied by the number of days in the Distribution Period	× 90															
Divided by 365	÷ 365															
Sub-total	\$ 1.1142															
Divided by 1 – (Tax Rate × (1 – franking rate))	÷ 0.97															
Partially franked Distribution payment on each Capital Note	\$ 1.1486															
2.1.6 When are the Distribution Payment Dates?	<ul style="list-style-type: none"><li>The first Distribution Payment Date is 15 March 2017.</li><li>The number of days in the first Distribution Period will be 83 days.</li><li>Distribution Payment Dates are 15 March, June, September and December each year.</li><li>If any of these dates is not a Business Day, then the Distribution Payment Date will be the next Business Day.</li></ul>	Clause 3.5 of the Capital Notes Terms														

Topic	Summary	Further information
<b>2.1.7</b> What are the Payment Conditions?	<ul style="list-style-type: none"> <li>Distributions may not always be paid. The payment of each Distribution is subject to the following: <ul style="list-style-type: none"> <li>– IAG’s absolute discretion; and</li> <li>– no Payment Condition existing in respect of the relevant Distribution Payment Date.</li> </ul> </li> <li>A Payment Condition will exist if: <ul style="list-style-type: none"> <li>– a Distribution payment would result in IAG or the IAG Level 2 Insurance Group not complying with APRA’s capital adequacy requirements (unless APRA otherwise approves in writing);</li> <li>– a Distribution payment would result in IAG becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or</li> <li>– APRA objects to a Distribution payment.</li> </ul> </li> </ul>	Clauses 3.3 and 21.2 (“Payment Condition”) of the Capital Notes Terms
<b>2.1.8</b> What is the Distribution Restriction and when will it apply?	<ul style="list-style-type: none"> <li>If for any reason a Distribution has not been paid in full on a Distribution Payment Date (the relevant Distribution Payment Date), IAG must not, subject to certain exclusions, without approval of a Special Resolution, until and including the next Distribution Payment Date: <ul style="list-style-type: none"> <li>– declare or determine to pay or pay an Ordinary Share Dividend; or</li> <li>– undertake any buy-back or capital reduction, unless the Distribution is paid in full within three Business Days of the relevant Distribution Payment Date.</li> </ul> </li> <li>Failure to pay a Distribution when scheduled will not constitute an event of default.</li> </ul>	Clauses 3.4, 3.7, 3.8 and 11.2(g) of the Capital Notes Terms
<b>2.1.9</b> Are any deductions made on the Distributions?	<ul style="list-style-type: none"> <li>IAG may deduct from any Distribution or other amount payable in accordance with the Capital Notes Terms the amount of any withholding or other tax, duty or levy required by any applicable law to be deducted in respect of such amount, or on account of FATCA.</li> <li>IAG is not required to pay an additional amount (or take any further action) where it has made a deduction as described above.</li> </ul>	Clauses 16.1 and 16.2 of the Capital Notes Terms
<b>2.1.10</b> How will Distributions be paid?	<ul style="list-style-type: none"> <li>Distributions are scheduled to be paid to Capital Note Holders whose details are recorded with the Registrar on the relevant Record Date.</li> <li>Distributions and any other amount payable: <ul style="list-style-type: none"> <li>– may be paid in any manner IAG decides, including by any method of direct credit to a bank account maintained in Australia with a financial institution specified by the Capital Note Holder to the Registrar; or</li> <li>– where no account is specified by a Capital Note Holder, or where IAG attempts to pay the relevant amount and the transfer is unsuccessful for any reason, may not be paid to the Capital Note Holder, but will be held by or on behalf of IAG for the Capital Note Holder in accordance with the Capital Notes Terms.</li> </ul> </li> <li>The Capital Notes Terms include detailed provisions for the payment of Distributions – see clause 16 of the Capital Notes Terms.</li> </ul>	Clauses 16.3 and 16.4 of the Capital Notes Terms



## 2.2 MANDATORY CONVERSION

Topic	Summary	Further information
2.2.1 What happens on Mandatory Conversion?	<ul style="list-style-type: none"><li>Capital Note Holders will receive Ordinary Shares on Conversion of Capital Notes on the Mandatory Conversion Date unless the Mandatory Conversion Conditions are not satisfied or Capital Notes are not outstanding on that date.</li><li>Upon Conversion on a Mandatory Conversion Date, Capital Note Holders will receive Ordinary Shares worth approximately \$101 per Capital Note based on the VWAP (the volume weighted average price of Ordinary Shares) during a period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date.</li><li>The number of Ordinary Shares received will not be greater than the Maximum Conversion Number.</li><li>The VWAP that is used to calculate the number of Ordinary Shares that Capital Note Holders receive will most likely differ from the Ordinary Share price on or after the Mandatory Conversion Date. This means that the value of Ordinary Shares received may be worth more or less than approximately \$101 per Capital Note when they are issued or at any time after that.</li><li>As a result of any Conversion of Capital Notes to Ordinary Shares, Capital Note Holders will become holders of Ordinary Shares, which will rank equally with existing Ordinary Shares from the date of issue.</li><li>For the Group more broadly, the composition of the capital base will alter as a consequence of any Conversion and result in Common Equity Tier 1 Capital increasing and Additional Tier 1 Capital decreasing.</li></ul>	Clauses 4, 8 and 21.2 ("Conversion", "Issue Date VWAP", "VWAP" and "VWAP Period") of the Capital Notes Terms
2.2.2 When is the Mandatory Conversion Date?	<ul style="list-style-type: none"><li>The Mandatory Conversion Date will be 16 June 2025, provided the Mandatory Conversion Conditions are satisfied.</li><li>If any of the Mandatory Conversion Conditions are not satisfied on this date, then the Mandatory Conversion Date will be the next Distribution Payment Date on which they are satisfied.</li><li>These conditions may never be satisfied and therefore, Capital Notes may never Convert into Ordinary Shares.</li></ul>	Clauses 4.2, 4.3 and 11.2(d)(ii) of the Capital Notes Terms

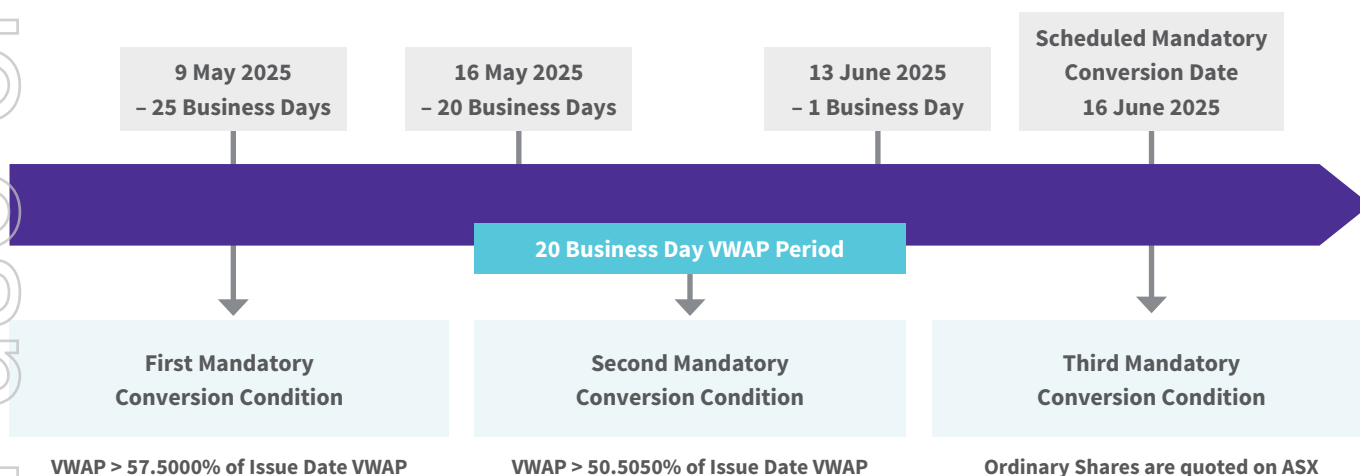
Topic	Summary	Further information
2.2.3 What are the Mandatory Conversion Conditions?	<ul style="list-style-type: none"> <li>The Mandatory Conversion Conditions are as follows: <ul style="list-style-type: none"> <li><b>First Mandatory Conversion Condition:</b> the VWAP of Ordinary Shares on the 25th Business Day before a possible Mandatory Conversion Date<sup>1</sup> is greater than 57.5000% of the Issue Date VWAP;</li> <li><b>Second Mandatory Conversion Condition:</b> the VWAP of Ordinary Shares during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) a possible Mandatory Conversion Date ("VWAP Period") is greater than 50.5050% of the Issue Date VWAP; and</li> <li><b>Third Mandatory Conversion Condition:</b> no Delisting Event applies to Ordinary Shares in respect of a possible Mandatory Conversion Date (broadly, a Delisting Event occurs when IAG is delisted from ASX, its Ordinary Shares have been suspended from trading for a certain period, or it is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting Capital Notes).</li> </ul> </li> </ul>	Clauses 4.3 and 21.2 ("Delisting Event" and "Inability Event") of the Capital Notes Terms
2.2.4 What is the purpose of the Mandatory Conversion Conditions?	<ul style="list-style-type: none"> <li>There is a cap on the maximum number of Ordinary Shares that Capital Note Holders can be issued on conversion of an instrument such as Capital Notes due to Prudential Standards and rating agency requirements ("Maximum Conversion Number"). The Maximum Conversion Number is calculated in accordance with the following formula:  <math display="block">\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{\text{Issue Date VWAP} \times \text{Relevant Percentage}}</math> where:  <ul style="list-style-type: none"> <li><b>Relevant Percentage</b> is 50% (in relation to a Mandatory Conversion).</li> </ul> </li> <li>Without the Mandatory Conversion Conditions, Mandatory Conversion could occur in situations where Capital Note Holders would receive a number of Ordinary Shares limited to the Maximum Conversion Number, or Ordinary Shares which may not be able to be sold on ASX.</li> <li>The First Mandatory Conversion Condition and the Second Mandatory Conversion Condition are intended to help protect Capital Note Holders against receiving a number of shares limited to the Maximum Conversion Number and accordingly worth less than approximately \$101 per Capital Note (based on the VWAP during the 20 Business Days before the Mandatory Conversion Date).</li> <li>The Third Mandatory Conversion Condition is intended to protect Capital Note Holders by making Conversion conditional on Capital Note Holders receiving Ordinary Shares which are capable of being sold on ASX.</li> <li>The Issue Date VWAP, and consequently the price at which the First Mandatory Conversion Condition and the Second Mandatory Conversion Condition would be satisfied, will be adjusted in limited circumstances (described in Section 2.2.7)</li> </ul>	Clauses 4.3 and 8.1 of the Capital Notes Terms

<sup>1</sup> If no trading in Ordinary Shares took place on that date, the VWAP on the first Business Day preceding that date on which trading in Ordinary Shares took place.

Topic	Summary	Further information
<b>2.2.5</b> What can happen if the Mandatory Conversion Conditions are not satisfied?	<ul style="list-style-type: none"> <li>If any of the Mandatory Conversion Conditions are not satisfied, Capital Notes continue to be on issue and Conversion is deferred until the next Distribution Payment Date on which all of the Mandatory Conversion Conditions are satisfied.</li> </ul>	Clause 4.2 of the Capital Notes Terms

The following diagram illustrates the operation of the conditions.

## MANDATORY CONVERSION TIMELINE



Note: In the diagram above, dates rest on the assumption that during the VWAP Period, trading takes place on each of the Business Days, which may not be the case if trading in Ordinary Shares is suspended during the period leading up to the possible Mandatory Conversion Date.

Topic	Summary	Further information						
2.2.6 How many Ordinary Shares will a Capital Note Holder receive on the Mandatory Conversion Date?	<ul style="list-style-type: none"><li>Where the Mandatory Conversion Conditions are satisfied, a Capital Note Holder will receive on a Mandatory Conversion Date a number of Ordinary Shares per Capital Note (“Conversion Number”) calculated in accordance with the following formula: <math display="block">\text{Conversion Number} = \frac{\text{Issue Price}}{99\% \times \text{VWAP}}</math>where:<ul style="list-style-type: none"><li><b>VWAP</b> is the volume weighted average price of Ordinary Shares during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date.</li></ul></li></ul> <p><i>Illustrative example of Conversion</i></p> <ul style="list-style-type: none"><li>Assuming the VWAP is \$5.00, the number of Ordinary Shares a Capital Note Holder would receive following Conversion on a Mandatory Conversion Date would be calculated as follows:</li></ul> <table><tr><td>Issue Price</td><td>\$100</td></tr><tr><td>Divided by VWAP × 0.99</td><td>÷ \$4.95</td></tr><tr><td>Ordinary Shares per Capital Note</td><td><b>20.2020</b></td></tr></table> <ul style="list-style-type: none"><li>Assuming the price of those Ordinary Shares on the Mandatory Conversion Date is also \$5.00, the aggregate value of those Ordinary Shares (calculated by multiplying 20.2020 by \$5.00) on the Mandatory Conversion Date would be approximately \$101.</li><li>Assuming a Capital Note Holder has 100 Capital Notes, the total number of Ordinary Shares to which they would be entitled to would be 2,020 (i.e. 100 × 20.2020, which number is rounded down to disregard the fraction of the Ordinary Share).</li><li>The above example is for illustrative purposes only. The actual VWAP and the number of Ordinary Shares Capital Note Holders might receive on Conversion on the Mandatory Conversion Date may be higher or lower than in this example.</li><li>If the Capital Note Terms did not include the Mandatory Conversion Conditions, in the event that the price of Ordinary Shares falls significantly compared to the Issue Date VWAP the number of Ordinary Shares issued on Conversion per Capital Note would be limited to the Maximum Conversion Number. The Maximum Conversion Number is based on the Issue Date VWAP of Ordinary Shares and, in the case of Mandatory Conversion, is set by dividing the Issue Price of the Capital Notes by 50% of the Issue Date VWAP.</li><li>However, where the Ordinary Share Price has fallen to less than or equal to 50.5050% of the Issue Date VWAP, the Second Mandatory Conversion Condition will not be met and therefore Conversion will not occur on that date. The Mandatory Conversion Date will be the next Distribution Payment Date on which the Mandatory Conversion Conditions are satisfied.</li></ul>	Issue Price	\$100	Divided by VWAP × 0.99	÷ \$4.95	Ordinary Shares per Capital Note	<b>20.2020</b>	Clauses 8 and 21.2 (“Conversion”, “VWAP” and “VWAP Period”) of the Capital Notes Terms
Issue Price	\$100							
Divided by VWAP × 0.99	÷ \$4.95							
Ordinary Shares per Capital Note	<b>20.2020</b>							

Topic	Summary	Further information
<b>2.2.7</b> What adjustments to the Issue Date VWAP are made to account for changes to IAG's capital?	<ul style="list-style-type: none"> <li>The Issue Date VWAP, and consequently the Maximum Conversion Number and the price at which the First Mandatory Conversion Condition and the Second Mandatory Conversion Condition would be satisfied, will be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues as set out in the Capital Notes Terms (but not other transactions, including rights issues, which may affect the capital of IAG).</li> <li>However, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than 1% of the Issue Date VWAP then in effect.</li> </ul>	Clauses 8.4 to 8.7 and 21.2 ("Issue Date VWAP") of the Capital Notes Terms

## 2.3 OPTIONAL EXCHANGE BY IAG

Topic	Summary	Further information
<b>2.3.1</b> When may IAG choose to Exchange?	<ul style="list-style-type: none"> <li>IAG may choose to: <ul style="list-style-type: none"> <li>Exchange all or some Capital Notes on the Optional Exchange Date;</li> <li>Exchange all or some Capital Notes after a Tax Event or a Regulatory Event; or</li> <li>Convert all Capital Notes after a Potential Acquisition Event.</li> </ul> </li> <li>Exchange means: <ul style="list-style-type: none"> <li>IAG Converts Capital Notes into a variable number of Ordinary Shares with a value (based on the VWAP during a period, usually 20 Business Days<sup>1</sup>, before the Exchange Date) of approximately \$101 per Capital Note;</li> <li>IAG Redeems Capital Notes for \$100 per Capital Note;</li> <li>IAG Resells Capital Notes for \$100 per Capital Note; or</li> <li>a combination of Conversion, Redemption and Resale.</li> </ul> </li> <li>IAG may not elect to Redeem or Resell Capital Notes in connection with a Potential Acquisition Event.</li> <li>IAG's right to elect to Exchange is subject to APRA's prior written approval and is restricted in circumstances described further in Sections 2.3.4, 2.3.5 and 2.3.6.</li> <li>Capital Note Holders should not assume that APRA will give its approval for any Exchange.</li> </ul>	Clauses 5, 8, 9, 10 and 21.2 ("Conversion") and "Exchange" of the Capital Notes Terms
<b>2.3.2</b> When is the Optional Exchange Date?	<ul style="list-style-type: none"> <li>The Optional Exchange Date is 15 June 2023.<sup>2</sup></li> </ul>	Clause 21.2 ("Optional Exchange Date") of the Capital Notes Terms

<sup>1</sup> If Conversion occurs as a result of an Acquisition Event or Potential Acquisition Event, the period for calculating the VWAP may be less than 20 Business Days before the Exchange Date.

<sup>2</sup> If that date is not a Business Day it is adjusted to the next Business Day.

Topic	Summary	Further information
<b>2.3.3</b> What is a Tax Event, Regulatory Event or Potential Acquisition Event?	<ul style="list-style-type: none"><li>• A summary of these events, which give IAG the right to Exchange Capital Notes is as follows:<ul style="list-style-type: none"><li>– a <b>Tax Event</b> means, broadly, that the Directors receive advice that as a result of a change in the laws or treaties affecting taxation in Australia (not expected by IAG on the Issue Date), there is more than an insubstantial risk that:<ul style="list-style-type: none"><li>◦ IAG would be exposed to more than a de minimis increase in costs in relation to Capital Notes;</li><li>◦ any Distribution in respect of Capital Notes would not be a frankable distribution or would give rise to an additional franking debit; or</li><li>◦ Australian tax resident Capital Note Holders generally would not be entitled to franking credits in respect of Distributions;</li></ul></li><li>– a <b>Regulatory Event</b> will occur if, broadly:<ul style="list-style-type: none"><li>◦ IAG receives legal advice that, as a result of a change of law or regulation on or after the Issue Date (not expected by IAG on the Issue Date), additional requirements would be imposed on IAG in relation to Capital Notes which the Directors determine to be unacceptable; or</li><li>◦ the Directors determine that, as a result of such change, IAG is not or will not be entitled to treat some or all Capital Notes as Additional Tier 1 Capital of the IAG Level 2 Insurance Group; and</li></ul></li><li>– a <b>Potential Acquisition Event</b> will occur if, broadly:<ul style="list-style-type: none"><li>◦ a takeover bid is made to acquire Ordinary Shares and the offer is, or becomes, unconditional and the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue or a majority of Directors recommend acceptance of the offer (without the need that all regulatory approvals necessary for the acquisition have been obtained); or</li><li>◦ a court orders the holding of meetings to approve a scheme of arrangement with respect to IAG which would result in a person having a relevant interest in more than 50% of the Ordinary Shares on issue after the scheme is implemented.</li></ul></li></ul></li></ul>	Clause 21.2 (“Potential Acquisition Event”, “Regulatory Event” and “Tax Event”) of the Capital Notes Terms

Topic	Summary	Further information
2.3.4 What are the requirements for Conversion to be elected as the Exchange Method?	<ul style="list-style-type: none"> <li>If IAG wishes to Convert Capital Notes, there are two types of restrictions which apply: <ul style="list-style-type: none"> <li><b>restrictions on choosing to Convert</b> – IAG may not elect to Convert Capital Notes as the Exchange Method, on the second Business Day before the date on which an Exchange Notice is to be sent: <ul style="list-style-type: none"> <li>the VWAP is less than or equal to 23.0000% of the Issue Date VWAP; or</li> <li>a Delisting Event applies; and</li> </ul> </li> <li><b>restrictions on completing the Conversion</b> – further, if IAG has given notice that it has elected to Convert Capital Notes, IAG may not proceed to Convert Capital Notes if, on the Exchange Date specified in the notice: <ul style="list-style-type: none"> <li>the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) that date is less than or equal to 20.2020% of the Issue Date VWAP; or</li> <li>a Delisting Event applies.</li> </ul> </li> </ul> </li> <li>The percentages used in the above conditions (referred to in the Capital Notes Terms as the First Test Date Percentage and the Conversion Test Date Percentage) are derived from market precedents and the cap on the number of Ordinary Shares that are permitted to be issued in these circumstances under the Prudential Standards and rating agency requirements. Without these conditions, Conversion could occur in situations where Capital Note Holders would receive a number of Ordinary Shares limited to the Maximum Conversion Number and accordingly, those Ordinary Shares could be worth less than approximately \$101 per Capital Note.</li> <li>The Maximum Conversion Number in the case of Conversion in these circumstances is set by dividing the Issue Price by 20% of the Issue Date VWAP (as such number may be adjusted as described in Section 2.2.7).</li> </ul>	Clauses 4.3, 5.4, 5.5 and 8.1 of the Capital Notes Terms
2.3.5 What happens if the Conversion restrictions apply on the Exchange Date?	<ul style="list-style-type: none"> <li>If the Conversion restrictions described above apply on the Exchange Date, IAG will notify Capital Note Holders and the Conversion will be deferred until the next Distribution Payment Date on which the restrictions on electing to Convert and on completing the Conversion described above do not apply (unless the Capital Notes are otherwise Exchanged or Written-Off before that date in accordance with the Capital Notes Terms).</li> </ul>	Clause 5.5 of the Capital Notes Terms
2.3.6 What are the requirements for Redemption to be elected as the Exchange Method?	<ul style="list-style-type: none"> <li>IAG may not specify Redemption as the Exchange Method unless: <ul style="list-style-type: none"> <li>the Capital Notes which are the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality; or</li> <li>APRA is satisfied that IAG does not have to replace the Capital Notes the subject of the Redemption. Capital Note Holders should not assume that APRA will be satisfied that this is the case.</li> </ul> </li> <li>IAG may not specify Redemption as the Exchange Method in connection with a Potential Acquisition Event.</li> </ul>	Clause 5.3 of the Capital Notes Terms



Topic	Summary	Further information
<b>2.3.7</b> What happens on Resale?	<ul style="list-style-type: none"> <li>If IAG elects for Capital Notes to be Resold, subject to payment by the Nominated Purchaser of \$100 per Capital Note ("Resale Price"), the Capital Note Holder's Capital Notes will be transferred to the Nominated Purchaser on the Exchange Date. If the Nominated Purchaser does not pay the Resale Price of any Capital Notes, those Capital Notes will not be transferred and the Capital Note Holder has no claim against IAG as a result of the non-payment.</li> <li>IAG may only elect to Resell Capital Notes with APRA's prior written approval. Capital Note Holders should not assume that APRA's approval will be given if requested.</li> <li>IAG may not specify Resale as the Exchange Method in connection with a Potential Acquisition Event.</li> </ul>	Clauses 5.1 and 10 of the Capital Notes Terms
<b>2.3.8</b> Can Capital Note Holders request Exchange?	<ul style="list-style-type: none"> <li>Capital Note Holders do not have a right to request Exchange.</li> </ul>	Clause 11.2(g)(i) of the Capital Notes Terms

## 2.4 NON-VIABILITY CONVERSION

Topic	Summary	Further information
<b>2.4.1</b> What is a Non-Viability Trigger Event?	<ul style="list-style-type: none"> <li>Non-Viability Trigger Event means APRA has provided a written determination to IAG that: <ul style="list-style-type: none"> <li>conversion or write-off of Relevant Securities (including the Capital Notes) is necessary because, without it, APRA considers that IAG would become non-viable; or</li> <li>without a public sector injection of capital (or equivalent support) IAG would become non-viable.</li> </ul> </li> <li>The date on which a Non-Viability Trigger Event occurs is referred to as the Trigger Event Date.</li> <li>On the Trigger Event Date, IAG must immediately Convert Capital Notes as required by the determination into the Conversion Number of Ordinary Shares (subject to the Maximum Conversion Number).</li> </ul>	Clauses 6 and 21.2 ("Trigger Event Date") of the Capital Notes Terms
<b>2.4.2</b> Why do Capital Notes include a Non-Viability Trigger Event?	<ul style="list-style-type: none"> <li>A Non-Viability Trigger Event is an APRA regulatory requirement for Capital Notes to be characterised as Additional Tier 1 Capital.</li> </ul>	
<b>2.4.3</b> What does non-viable mean?	<ul style="list-style-type: none"> <li>APRA has not provided guidance as to how it would determine non-viability.</li> <li>Non-viability would be expected to include serious impairment of IAG's financial position. However, it is possible that APRA's definition may not necessarily be constrained to capital ratios.</li> </ul>	Section 5.1.8

Topic	Summary	Further information
<b>2.4.4</b> When does Conversion on account of a Non-Viability Trigger Event occur?	<ul style="list-style-type: none"> <li>• If a Non-Viability Trigger Event occurs, IAG must immediately: <ul style="list-style-type: none"> <li>– where APRA's determination is made on the grounds that without a public sector injection of capital, or equivalent support, IAG will become non-viable, convert all Relevant Securities; and</li> <li>– where APRA's determination is not made on those grounds and does not require all Relevant Securities to be converted or written-off, Convert such number of Capital Notes as is sufficient to satisfy APRA that IAG will without further Conversion or Write-Off.</li> </ul> </li> <li>• In determining the number of Capital Notes to be converted, IAG will: <ul style="list-style-type: none"> <li>– first, convert or write-off any Relevant Securities where terms require or permit them to be converted into Ordinary Shares or written-off before Conversion of Capital Notes; and</li> <li>– secondly, Convert Capital Notes and convert into Ordinary Shares or write-off other Relevant Securities on an approximately pro rata basis or in a manner that is otherwise in the opinion of IAG fair and reasonable (subject to such adjustment as IAG may determine to take into account the effect on marketable parcels and the need to round to whole numbers the number of Ordinary Shares and any Capital Notes or Relevant Securities). In addition, where Relevant Securities are in different currencies, IAG may treat them as if converted into a single currency at rates of exchange it considers reasonable. However, this determination must not impede the immediate Conversion of the relevant number of Capital Notes.</li> </ul> </li> <li>• IAG may make any decisions with respect to the identity of the Capital Note Holders where Capital Notes are to be Converted as may be necessary or desirable to ensure Conversion occurs immediately in an orderly manner, including disregarding any transfers of Capital Notes that have not been settled or registered at that time.</li> <li>• Capital Note Holders should be aware that: <ul style="list-style-type: none"> <li>– if APRA does not require all Relevant Securities to be converted or written-off, Relevant Securities such as Capital Notes will be converted or written-off before any Tier 2 capital instruments are converted or written-off; and</li> <li>– IAG has no Relevant Securities on issue other than CPS. CPS are not issued on terms that require them to be converted or written-off before Capital Notes. CPS may be redeemed on 1 May 2017. IAG has no obligation to keep CPS on issue or to issue or keep on issue any Relevant Securities.</li> </ul> </li> <li>• IAG must notify the Trustee and Capital Note Holders of the Non-Viability Trigger Event as soon as practicable (which may be after Conversion has occurred), but failure to give such notice will not prevent, impede or delay the Conversion.</li> </ul>	Clauses 6.2 , 6.3 and 11.2(f)(ii) of the Capital Notes Terms

Topic	Summary	Further information
<b>2.4.5</b> Are there any conditions which apply to Conversion if a Non-Viability Trigger Event occurs?	<ul style="list-style-type: none"> <li>Conversion on the occurrence of a Non-Viability Trigger Event is not subject to the Mandatory Conversion Conditions being satisfied.</li> </ul>	Clause 11.2(d)(i) of the Capital Notes Terms
<b>2.4.6</b> How many Ordinary Shares will Capital Note Holders receive on the Trigger Event Date?	<ul style="list-style-type: none"> <li>If Conversion occurs, the number of Ordinary Shares a Capital Note Holder will receive per Capital Note on account of a Non-Viability Conversion is the Conversion Number (calculated as described below), unless that number is greater than the Maximum Conversion Number (in which case a Capital Note Holder will receive the Maximum Conversion Number of Ordinary Shares per Capital Note). Since there are no conditions to a Non-Viability Conversion, the number of Ordinary Shares a Capital Note Holder may receive on account of a Non-Viability Conversion may be worth significantly less than approximately \$101 per Capital Note and a Capital Note Holder may suffer a loss as a consequence.</li> <li>The Conversion Number in the event of a Non-Viability Conversion is calculated in accordance with the following formula, subject to the Conversion Number being no greater than the Maximum Conversion Number:  <math display="block">\text{Conversion Number} = \frac{\text{Issue Price}}{99\% \times \text{VWAP}}</math>           where:           <ul style="list-style-type: none"> <li><b>VWAP</b> is the volume weighted average price of Ordinary Shares during the period of five Business Days on which trading in Ordinary Shares occurred immediately preceding the Trigger Event Date. See also Section 5.1.8.<sup>1</sup></li> </ul> </li> <li>The Maximum Conversion Number is described in Section 2.4.7 (as such number may be adjusted as described in Section 2.4.8).</li> <li>If Conversion does not occur, Capital Note Holders will not receive any Ordinary Shares, and Capital Notes will be Written-Off – see Section 2.4.9.</li> </ul>	Clauses 6.2, 8 and 21.2 (“Conversion”) of the Capital Notes Terms

<sup>1</sup> The VWAP during the five Business Days before the Trigger Event Date may differ from the Ordinary Share price on or after that date. The Ordinary Shares may not be listed or may not be able to be sold at prices representing their value based on the VWAP calculation or at all.

Topic	Summary	Further information												
2.4.7 What is the Maximum Conversion Number?	<ul style="list-style-type: none"><li>The Maximum Conversion Number is calculated in accordance with the following formula:<div>Maximum Conversion Number = <math>\frac{\text{Issue Price}}{\text{Issue Date VWAP} \times \text{Relevant Percentage}}</math></div>where:<ul style="list-style-type: none"><li><b>Relevant Percentage</b> is 20% (in relation to a Non-Viability Conversion).</li></ul></li><li>This means that, depending on the market price of Ordinary Shares at the relevant time, a Capital Note Holder is likely to receive Ordinary Shares worth significantly less than approximately \$101 per Capital Note and is likely to suffer a loss as a consequence.</li></ul> <p><i>Illustrative example of Conversion</i></p> <ul style="list-style-type: none"><li>This example illustrates how many Ordinary Shares a Capital Note Holder will receive per Note following Conversion on a Non-Viability Event assuming the VWAP is \$1.00 and the Issue Date VWAP is \$5.50.</li><li>This example is for illustrative purposes only. The actual VWAP, Issue Date VWAP and Maximum Conversion Number may be higher or lower than in this example and the Issue Date VWAP may be adjusted after the Issue Date in limited circumstances (see Section 2.4.8).</li></ul> <p><b>Step 1 – Calculate the number of Ordinary Shares using the Conversion mechanics</b></p> <table><tr><td>Issue Price</td><td>\$100</td></tr><tr><td>Divided by VWAP × 0.99</td><td>÷ \$0.99</td></tr><tr><td>Ordinary Shares per Capital Note</td><td>101.0101</td></tr></table> <p><b>Step 2 – Calculate the Maximum Conversion Number</b></p> <table><tr><td>Issue Price</td><td>\$100</td></tr><tr><td>Divided by Issue Date VWAP × 20%</td><td>÷ \$1.10</td></tr><tr><td>Maximum Conversion Number of Ordinary Shares per Capital Note</td><td>90.9091</td></tr></table> <p><b>Step 3 – Assess the effect of the Maximum Conversion Number</b></p> <p>In this example, the Maximum Conversion Number is lower than the number of Ordinary Shares a Capital Note Holder would receive per Capital Note calculated using the Conversion formula. As a result, the Maximum Conversion Number would cap the number of Ordinary Shares a Holder would receive per Capital Note at 90.9091 Ordinary Shares. If the Capital Note Holder holds 100 Capital Notes (having an aggregate Issue Price of \$10,000) they would receive (after disregarding any fraction of an Ordinary Share) 9,090 Ordinary Shares. If those Ordinary Shares were sold on ASX at the same price as the VWAP (being \$1.00), the Capital Note Holder would receive approximately \$9,090 and have suffered a loss on their investment of approximately \$910.</p>	Issue Price	\$100	Divided by VWAP × 0.99	÷ \$0.99	Ordinary Shares per Capital Note	101.0101	Issue Price	\$100	Divided by Issue Date VWAP × 20%	÷ \$1.10	Maximum Conversion Number of Ordinary Shares per Capital Note	90.9091	Clauses 8.1 and 21.2 (“Issue Date VWAP”) of the Capital Notes Terms
Issue Price	\$100													
Divided by VWAP × 0.99	÷ \$0.99													
Ordinary Shares per Capital Note	101.0101													
Issue Price	\$100													
Divided by Issue Date VWAP × 20%	÷ \$1.10													
Maximum Conversion Number of Ordinary Shares per Capital Note	90.9091													

Topic	Summary	Further information
<b>2.4.8</b> What adjustments to the Issue Date VWAP are made to account for changes to IAG's capital?	<ul style="list-style-type: none"> <li>The Issue Date VWAP, and consequently the Maximum Conversion Number, will be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues as set out in the Capital Notes Terms (but not other transactions, including rights issues, which may affect the capital of IAG).</li> <li>However, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than 1% of the Issue Date VWAP in effect.</li> </ul>	Clauses 8.4 to 8.7 of the Capital Notes Terms
<b>2.4.9</b> What happens if Capital Notes are not Converted on the Trigger Event Date?	<ul style="list-style-type: none"> <li>If Capital Notes are required to be Converted on a Trigger Event Date and Conversion has not been effected within five Business Days after the relevant Trigger Event Date for any reason (including because IAG is prevented by applicable law or order of any court or action of any government authority or External Administrator (including regarding the insolvency, winding-up or other external administration of IAG) ("Inability Event")), Capital Notes which would otherwise be Converted will not be Converted on that date and will not be Converted, Redeemed or Resold on any subsequent date, and will be Written-Off. If this occurs, all rights in relation to those Capital Notes (including in respect of distribution and return of capital) will be immediately and irrevocably terminated and Capital Note Holders will lose all of the value of their investment in those Capital Notes without compensation.</li> <li>The laws under which an Inability Event may arise, and the grounds on which a court or government authority may make orders preventing the Conversion of Capital Notes (or other reasons which prevent Conversion), may change.</li> </ul>	Clauses 6.4 and 21.2 ("Inability Event") of the Capital Notes Terms

## 2.5 CONVERSION ON AN ACQUISITION EVENT

Topic	Summary	Further information
<b>2.5.1</b> What is an Acquisition Event?	<ul style="list-style-type: none"> <li>An Acquisition Event means: <ul style="list-style-type: none"> <li>a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and: <ul style="list-style-type: none"> <li>the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or</li> <li>the Directors issue a statement that at least a majority of those Directors who are eligible to do so recommend acceptance of the offer (which may be stated to be in the absence of a higher offer); or</li> </ul> </li> <li>a court approves a scheme of arrangement which when implemented will result in a person other than IAG having a relevant interest in more than 50% of the Ordinary Shares on issue,</li> </ul> and all regulatory approvals necessary for the acquisition to occur have been obtained. </li> <li>There may be ways in which control of IAG or its business operations change, including as a result of regulatory intervention, which do not amount to an Acquisition Event. See Sections 5.1.9 and 5.2.12 for further information.</li> </ul>	Clause 21.2 ("Acquisition Event") of the Capital Notes Terms

Topic	Summary	Further information
2.5.2 What must IAG do on the occurrence of an Acquisition Event?	<ul style="list-style-type: none"> <li>If an Acquisition Event occurs, IAG must (by giving an Acquisition Conversion Notice) Convert all Capital Notes on issue into a number of Ordinary Shares with a value of approximately \$101 per Capital Note (based on the VWAP during a period before the Acquisition Conversion Date, being usually 20 Business Days but a lesser period if trading in Ordinary Shares in the period after the Acquisition Event and before the Acquisition Conversion Date is less than 20 Business Days). If the Maximum Conversion Number would be hit the Conversion will not occur. Other restrictions, described in Section 2.5.3, may also apply to prevent Conversion.</li> </ul>	Clauses 7, 8 and 21.2 ("Acquisition Event") of the Capital Notes Terms
2.5.3 What are the restrictions on Conversion occurring following an Acquisition Event?	<ul style="list-style-type: none"> <li>There are two types of restrictions which apply in relation to Conversion in connection with an Acquisition Event: <ul style="list-style-type: none"> <li><b>First Acquisition Conversion Restriction, on when Conversion is required</b> – IAG is not required to give an Acquisition Conversion Notice if, on the second Business Day before the date on which an Acquisition Conversion Notice is to be sent: <ul style="list-style-type: none"> <li>the VWAP is less than or equal to 23.0000% of the Issue Date VWAP; or</li> <li>a Delisting Event applies; and</li> </ul> </li> <li><b>Second Acquisition Conversion Restriction, on completing the Conversion</b> – if IAG has given an Acquisition Conversion Notice, IAG may not proceed to Convert Capital Notes if, on the Acquisition Conversion Date specified in the notice: <ul style="list-style-type: none"> <li>the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) that date is less than or equal to 20.2020% of the Issue Date VWAP; or</li> <li>a Delisting Event applies.</li> </ul> </li> </ul> </li> <li>If the above conditions apply to prevent IAG from Converting the Capital Notes in connection with an Acquisition Event, IAG: <ul style="list-style-type: none"> <li>will notify the Trustee and Capital Note Holders as soon as practicable that Conversion will not occur; and</li> <li>must give, unless the First Acquisition Conversion Restriction applies, an Acquisition Conversion Notice on or before the 25th Business Day prior to the following Distribution Payment Date, and the conditions described above will be tested again in respect of that date. This process will be repeated until a Conversion occurs or the Capital Notes are otherwise Exchanged or Written-Off.</li> </ul> </li> <li>The percentages used in the above conditions are derived from market precedents and the cap on the number of Ordinary Shares that are permitted to be issued in these circumstances under the Prudential Standards and rating agency requirements. Without these conditions, Conversion could occur in situations where Capital Note Holders would receive a number of Ordinary Shares limited to the Maximum Conversion Number and accordingly, those Ordinary Shares could be worth less than approximately \$101 per Capital Note.</li> <li>The Maximum Conversion Number in the case of Conversion in these circumstances is set by dividing the Issue Price of the Capital Notes by 20% of the Issue Date VWAP (as such number may be adjusted as described in Section 2.2.7).</li> </ul>	Clauses 7.4 and 7.5 of the Capital Notes Terms

Topic	Summary	Further information
<b>2.5.4</b> What other obligations does IAG have in connection with a takeover or scheme of arrangement?	<ul style="list-style-type: none"> <li>On the occurrence of a recommended takeover or scheme of arrangement which would result in an Acquisition Event or Potential Acquisition Event, if the Directors consider that IAG will not be permitted to Convert Capital Notes or the Second Mandatory Conversion Condition or Third Mandatory Conversion Condition will not be satisfied in respect of the relevant Acquisition Conversion Date, the Directors will use all reasonable endeavours to procure that equivalent takeover offers are made to Capital Note Holders or that Capital Note Holders are entitled to participate in the scheme of arrangement or a similar transaction.</li> </ul>	Clause 13 of the Capital Notes Terms

## 2.6 REGULATORY TREATMENT

Topic	Summary	Further information
<b>2.6.1</b> Who is APRA?	<ul style="list-style-type: none"> <li>The Australian Prudential Regulation Authority ("APRA") is the prudential regulator of the Australian financial services industry. It oversees life insurance companies, banks, credit unions, building societies, general insurance and reinsurance companies, friendly societies, health insurance companies and most members of the superannuation industry.</li> <li>APRA's website at <a href="http://www.apra.gov.au">www.apra.gov.au</a> includes further details of its functions and prudential standards.</li> </ul>	
<b>2.6.2</b> What is regulatory capital?	<ul style="list-style-type: none"> <li>Any business requires capital to support its income generating activities in its chosen industry.</li> <li>APRA's regulatory capital prudential standards aim to ensure that regulated groups including life insurers, banks, general insurers and regulated registrable superannuation entities, maintain adequate capital to support the risks associated with their activities and can withstand unexpected losses. APRA has detailed guidelines and restrictions on the types of capital instruments that are permitted to form the capital base. The types of capital deemed eligible for inclusion in the capital base are referred to as regulatory capital.</li> <li>APRA currently classifies regulatory capital of APRA regulated entities into two tiers for its supervisory purposes, being Tier 1 Capital and Tier 2 Capital.</li> <li>Tier 1 Capital is generally considered from the perspective of a financial institution to be a higher quality capital and comprises: <ul style="list-style-type: none"> <li><i>Common Equity Tier 1 Capital</i> (including ordinary shares and retained earnings); and</li> <li><i>Additional Tier 1 Capital</i> (such as perpetual subordinated instruments issued by APRA regulated entities).</li> </ul> </li> <li>Tier 2 Capital includes other components which fall short of some of the qualities of Tier 1 Capital but nonetheless contribute to the overall strength of the entity.</li> <li>Prudential Standard GPS 110 Capital Adequacy describes APRA's requirements for general insurers and insurance groups to maintain adequate capital against the risks associated with their activities.</li> </ul>	

Topic	Summary	Further information
<b>2.6.3</b> What is the regulatory treatment of Capital Notes?	<ul style="list-style-type: none"> <li>Capital Notes are eligible for inclusion as Additional Tier 1 Capital and qualify as regulatory capital of the IAG Level 2 Insurance Group for APRA purposes.</li> <li>If APRA's treatment of Capital Notes changes, a Regulatory Event may occur in which case IAG would have an option to Exchange Capital Notes as described in Section 2.3.</li> </ul>	Clauses 5.1(a) and 21.2 ("Regulatory Event") of the Capital Notes Terms
<b>2.6.4</b> Are the Capital Notes guaranteed by any government?	<ul style="list-style-type: none"> <li>No. The Capital Notes are not policy liabilities of any member of the Group or protected policies under the Insurance Act and are not guaranteed or insured by any government, government agency or compensation scheme.</li> </ul>	

## 2.7 OTHER

Topic	Summary	Further information
<b>2.7.1</b> Can IAG issue further Capital Notes or other instruments?	<ul style="list-style-type: none"> <li>IAG reserves the right to:               <ul style="list-style-type: none"> <li>issue further Capital Notes or other instruments which rank equally with the Capital Notes (on the same terms or otherwise) or rank in priority or junior to the Capital Notes;</li> <li>redeem, buy back, return capital on or convert any securities other than Capital Notes at any time except where expressly prevented from doing so as described in Section 2.1.8;</li> <li>subject to APRA's prior written consent, purchase or procure the purchase of Capital Notes from Capital Note Holders at any time and at any price; or</li> <li>incur or guarantee any indebtedness upon such terms as it may think fit.</li> </ul> </li> <li>Capital Notes do not confer on Capital Note Holders any right to subscribe for new securities in IAG or to participate in any bonus issues of shares in IAG's capital.</li> </ul>	Clauses 11.2(f) and 12.2 of the Capital Notes Terms
<b>2.7.2</b> What voting rights do Capital Notes carry?	<ul style="list-style-type: none"> <li>Capital Note Holders have no voting rights at meetings of holders of shares in IAG.</li> <li>Capital Note Holders may vote at meetings for Capital Note Holders in accordance with the Trust Deed.</li> </ul>	Clause 12 of the Capital Notes Terms



Topic	Summary	Further information
<b>2.7.3</b> Can IAG amend the Capital Notes Terms and the Trust Deed?	<ul style="list-style-type: none"><li>• Subject to complying with all applicable laws, and to having the approval of the Trustee, IAG may amend the Capital Notes Terms and Trust Deed without the approval of Capital Note Holders in certain circumstances.</li><li>• These may include amendments which may affect the rights of Capital Note Holders, including changes to dates or time periods necessary or desirable to facilitate a Mandatory Conversion, Non-Viability Conversion or Exchange, changes that enable the Capital Notes to be quoted on ASX or sold or to comply with applicable laws or listing rules, amendments made to align the Capital Notes Terms with any subsequently issued Additional Tier 1 Capital instrument, or any other change that in IAG's opinion will not be materially prejudicial to the interests of Capital Note Holders as a whole.</li><li>• IAG may also, with the Trustee's approval (and APRA's prior written approval where required), amend the Capital Notes Terms and Trust Deed if the amendment has been approved by a Special Resolution.</li><li>• APRA's prior written approval to amend the Capital Notes Terms and Trust Deed is required only where the amendment may affect the eligibility of Capital Notes as Additional Tier 1 Capital. Capital Note Holders should not assume that APRA's approval will be given if requested.</li></ul>	Clause 19 of the Capital Notes Terms and Section 9.9
<b>2.7.4</b> What is the Trust Deed?	<ul style="list-style-type: none"><li>• The Trust Deed is the document between IAG and the Trustee under which the Capital Notes are constituted, as required by Chapter 2L of the Corporations Act. The Trustee holds certain rights in relation to Capital Notes on trust for Capital Note Holders under the Trust Deed. In certain circumstances, the Trustee will act on behalf of Capital Note Holders.</li><li>• The Trustee holds on trust for the Capital Note Holders the right to enforce any obligations of IAG under the Capital Notes Terms and Trust Deed. The Trustee will be entitled to take any action against IAG to enforce any obligations of IAG, subject to the Capital Notes Terms and Trust Deed.</li><li>• A Capital Note Holder is not entitled to proceed directly against IAG to enforce a right or remedy in respect of Capital Notes except in limited circumstances.</li><li>• A copy of the Trust Deed can be obtained from <a href="http://www.iag.com.au">www.iag.com.au</a>.</li></ul>	Section 9.9

Topic	Summary	Further information
<b>2.7.5</b> In what circumstances will a Capital Note Holder not receive Ordinary Shares if Conversion occurs?	<ul style="list-style-type: none"><li>• If a Capital Note Holder's Capital Notes are Converted, the Capital Notes Terms contemplate two situations in which Ordinary Shares issued as a result of that Conversion are not issued to the Capital Note Holder, but to a nominee (who may not be IAG or a Related Entity of IAG) who would deal with the Ordinary Shares, as described below:<ul style="list-style-type: none"><li>– if the Register indicates that a Capital Note Holder's address is outside Australia (or IAG believes that a Capital Note Holder may not be a resident of Australia) ("Foreign Capital Note Holder") and that Foreign Capital Note Holder's Capital Notes are to be Converted, IAG is entitled in certain circumstances to issue the relevant Ordinary Shares to a nominee (who may not be IAG or a Related Entity of IAG) who will sell those Ordinary Shares and pay a cash amount equal to the net proceeds to the Foreign Capital Note Holder; or</li><li>– where any deduction or withholding is imposed or required pursuant to the Foreign Account Tax Compliance Act provisions, being sections 1471 through 1474 of the United States Internal Revenue Code (including any regulations or official interpretations issued, agreements or intergovernmental agreements entered into or non-US laws enacted with respect to those provisions), in respect of Ordinary Shares issued on Conversion of Capital Notes, or where IAG has reasonable grounds to suspect such a deduction or withholding would be imposed or required, the Ordinary Shares which the relevant Capital Note Holder is obliged to accept will be issued to the Capital Note Holder only to the extent (if at all) that the issue is net of FATCA Withholding. IAG will issue the balance of the Ordinary Shares, if any, to a nominee who will sell those Ordinary Shares, deal with any proceeds of their disposal in accordance with FATCA and pay a cash amount equal to the proceeds net of any FATCA Withholding to the Capital Note Holder.</li></ul></li><li>• Capital Note Holders are otherwise bound to accept Ordinary Shares issued on Conversion, and cannot require those Ordinary Shares to be issued to a nominee.</li></ul>	Clauses 8.11, 8.12, 11.2(b) and 21.1 ("Foreign Capital Note Holder" and "FATCA") of the Capital Notes Terms
<b>2.7.6</b> What are the taxation implications of investing in Capital Notes?	<ul style="list-style-type: none"><li>• The taxation implications of investing in Capital Notes will depend on an investor's individual circumstances. Prospective investors should obtain their own taxation advice.</li><li>• A general outline of the Australian taxation implications is included in the Australian taxation summary in Section 8.</li></ul>	Section 8
<b>2.7.7</b> Will Capital Notes be rated?	<ul style="list-style-type: none"><li>• IAG has not sought a credit rating for Capital Notes.</li></ul>	

# THE GROUP AND WHAT IT DOES.

## 3.1 ABOUT IAG

- IAG is the parent company of a general insurance group employing over 15,000 people with operations in Australia, New Zealand, Thailand, Vietnam and Indonesia, and general insurance joint ventures in Malaysia and India. IAG is listed on ASX with ordinary shares trading under ASX code IAG. IAG is authorised as a non-operating holding company of general insurance companies under the Insurance Act and is subject to prudential supervision by APRA. IAG is not a licensed insurer in Australia, New Zealand or in any other jurisdiction.
- The financial position of IAG as at 30 June 2016 on a consolidated and standalone basis is outlined in Section 4.

- This Prospectus contains information on the Group and other associated insurance businesses because:
  - IAG's subsidiaries conduct substantially all of the insurance businesses and Group's businesses and accordingly, the subsidiaries generate any profits that are distributed to IAG in order for IAG to meet its liabilities, including in respect of the Capital Notes;
  - substantially all the assets of IAG are made up of shares in, or other claims on, IAG's subsidiaries and, accordingly, the claims of Capital Note Holders against IAG will be limited to the value of IAG's residual claims to the net assets (if any) of the subsidiaries, after all liabilities, including to policyholders, have been discharged or provided for; and
  - returns on the Capital Notes can be affected by the financial position and performance of members of the Group and other associated insurance businesses.

## 3.2 OVERVIEW OF THE BUSINESS OF THE GROUP

- The Group's businesses underwrote over \$11 billion of premium in the financial year ended 30 June 2016, selling personal and commercial insurance under many brands including:
  - NRMA Insurance, CGU, SGIO, SGIC, RACV<sup>1</sup>, Swann Insurance and WFI in Australia;
  - State, NZI, AMI and Lumley Insurance in New Zealand; and
  - Safety and NZI in Thailand, AAA Assurance in Vietnam and Asuransi Parolamas in Indonesia.
- IAG also has interests in general insurance joint ventures in Malaysia and India.

<sup>1</sup> RACV is via a distribution relationship and underwriting joint venture with Royal Automotive Club of Victoria (RACV) Limited.

- In June 2015, the Group formed a strategic relationship with Berkshire Hathaway, the benefits of which include reduced Group earnings volatility through a 10-year, 20% whole-of-account quota share arrangement and increased capital flexibility. Under the quota share arrangement, which came into effect on 1 July 2015, Berkshire Hathaway receives an amount equal to 20% of the Group's GWP and pays 20% of its claims, and also reimburses the Group for its share of operating costs and pays a commission to the Group. In addition to the quota share arrangement, other key aspects of the relationship are as follows:
  - the acquisition by Berkshire Hathaway of \$500 million of Ordinary Shares, giving it an initial holding of approximately 3.7% of the Ordinary Shares at the time of the arrangement. Berkshire Hathaway must maintain at least this initial shareholding for the 10-year term of the quota share agreement, but may not increase its shareholding in IAG above 14.9% of the Ordinary Shares

- during this time without majority Board agreement and receipt of requisite regulatory approvals;
- the option that IAG has to require Berkshire Hathaway to subscribe for approximately a further 121 million Ordinary Shares, as described in Section 4.4.5; and
- the Group and Berkshire Hathaway transferred certain Australian business lines to each other: Berkshire Hathaway transferred its personal and small and medium-sized enterprise business lines to the Group; and the Group transferred renewal rights to its large corporate property and liability insurance business (less than 1% of the Group's GWP) to Berkshire Hathaway.
- In addition, in February 2016, the Group entered into additional reinsurance transactions with Berkshire Hathaway that mitigate the Group's exposure to the Canterbury (New Zealand) earthquakes and asbestos related liabilities.
- In October 2016, the Group extended the quota share agreement with Munich Re that covers 30% of the

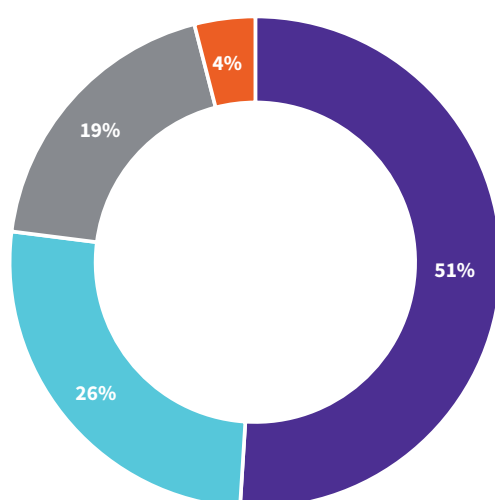
Group's compulsory third party ("CTP") business written in New South Wales, the Australian Capital Territory and South Australia. Further details of this arrangement can be found in Section 4.3.1.

- For the financial year ended 30 June 2016, the Group's reported GWP was \$11.37 billion (FY2015: \$11.44 billion) and net profit after tax was \$625 million (FY2015: \$728 million).
- The Group is currently working with APRA and other stakeholders to reduce the number of individual insurance licences in the Group. Efficiencies are expected when the Group operates under a reduced number of licences.
- More information about the Group's performance can be found in Section 4 and at [www.iag.com.au/results](http://www.iag.com.au/results).

Short-tail insurance refers to the classes of insurance with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs while long-tail insurance refers to the classes of insurance with an average period generally more than 12 months between the time when premiums are earned and final settlement of claims occurs.

#### Group's geographical presence

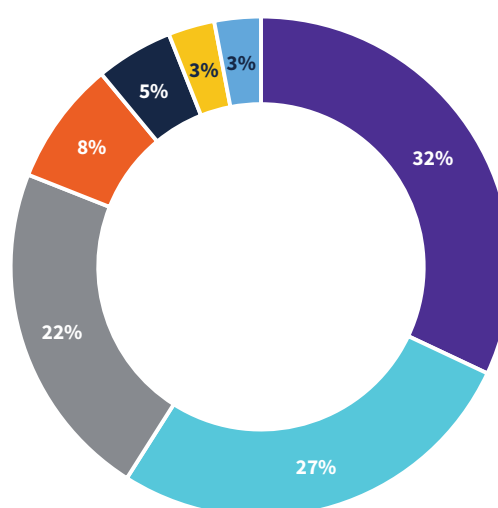
% of GWP for the financial year ended 30 June 2016



- Australian Consumer Division
- Australian Business Division
- New Zealand
- Asia

#### Group's portfolio of products

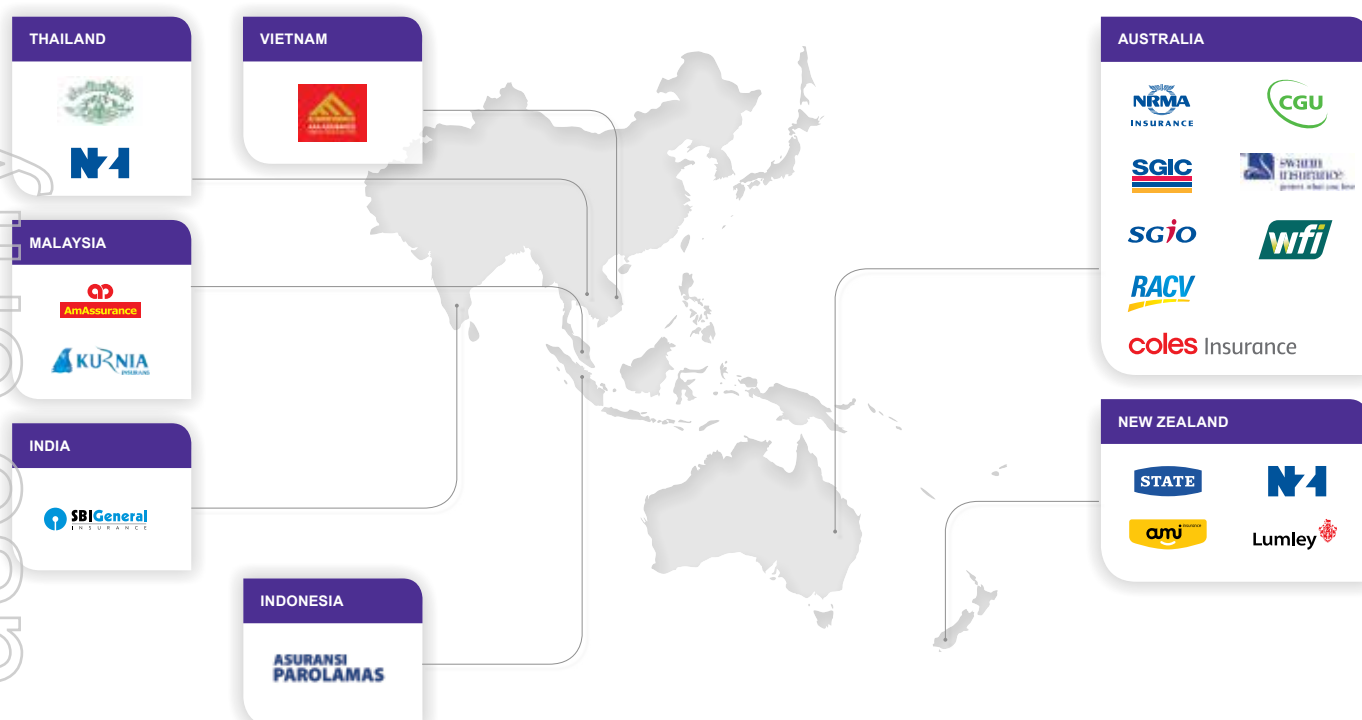
% of GWP for the financial year ended 30 June 2016



- Motor
- Home
- Short-tail Commercial
- CTP/Motor Liability
- Liability
- Workers' Compensation
- Other Short-tail

### 3.3 THE GROUP'S MAJOR BRANDS AND OPERATING MODEL

IAG is the name behind some of the most well-known insurance brands in the regions where it operates.



### 3.4 BUSINESS SEGMENTS

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

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

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

- Australian Consumer Division focuses on individuals and families; and
- Australian Business Division focuses on businesses of all sizes.

The Group has a distribution relationship and underwriting joint venture which was established in 1999 with Royal Automobile Club of Victoria (RACV) Ltd ("RACV").

Under this joint venture arrangement, short-tail personal insurance products are manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is owned 70% by IAG and 30% by RACV,

and are distributed in Victoria under the RACV brand and in New South Wales and the Australian Capital Territory under the NRMA brand.

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

- Customer Labs is a customer and digital hub that enables the Group to deliver its customer promise. It is responsible for the customer experience strategy and driving product innovation through data and insights, brand architecture across the Group, and new business incubations and venturing, together with digital design, disruption and delivery; and
- Operations is a hub for core technology systems that enable the Group to drive business optimisation. It is responsible for claims and operational functions such as procurement, supply chain management and technology.

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

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

- in New Zealand, the Group's business is the leading general insurance provider across both the direct and intermediated channels. Insurance products are sold directly to customers predominantly under the State and AMI brands, and through intermediaries (insurance brokers and authorised representatives) predominantly under the NZI and Lumley Insurance brands. Insurance products are also distributed under third party brands by the Group's corporate partners, including large financial institutions. The Group's New Zealand businesses generated GWP of \$2.2 billion for the financial year ended 30 June 2016, representing approximately 19% of the Group's GWP; and

- in Asia, the Group has established a presence in Thailand, Vietnam, Indonesia, Malaysia and India. For the financial year ended 30 June 2016, Asia represented 3.4% of the Group's GWP.

### 3.5 PURPOSE AND STRATEGY

The Group's purpose is to make your world a safer place, whether you are a customer, partner, employee, shareholder or part of the communities that the Group serves across Australia, New Zealand or Asia.

The Group believes its purpose will facilitate a more sustainable business over the long term, and deliver stronger and more consistent returns for IAG shareholders.

The Group's objective is to deliver world class customer experiences and all the elements of its strategy are now driven by its customers' needs.

To fulfil its purpose, the Group is focusing on two key strategic themes:

- leading the change that the Group's customers need and demand; and
- ensuring the business can deliver on these opportunities.

### 3.6 REINSURANCE

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

Reinsurance is used by the Group to limit exposure to large single claims and accumulation of claims that arise from the same event (such as a cyclone or an earthquake). In addition to limiting exposure to losses, reinsurance can also stabilise earnings, ensure efficient control and spread of underwritten risks and, by reducing insurance risk, reduce the amount of capital the Group is required to have.

The Group enters into reinsurance arrangements with numerous reinsurers, which typically renew on an annual basis although the Group also has a number of multi-year reinsurance arrangements.

A description of the current reinsurance arrangements is provided in Section 4.3.

A description of the risks relating to the Group's reinsurance arrangements can be found in Section 5.2.2.

### 3.7 INVESTMENTS

The Group's investment philosophy is to:

- manage the assets backing technical reserves and Shareholders' funds separately;
- invest the assets backing technical reserves, wherever possible, in securities with interest rate sensitivities that align to the underlying insurance liabilities;
- invest Shareholders' funds to maximise the return on risk-based capital, consistent with the Group's risk appetite and flexibility requirements; and
- invest the Group's assets so that the contribution of investment risk to earnings volatility should not dominate the contribution from insurance risk.

The Group's overall investment allocation is conservatively positioned, with 84% of total investments in fixed interest and cash as at 30 June 2016. Technical reserves were 100% invested in fixed interest and cash, while the equivalent figure for Shareholders' funds was 52% as at 30 June 2016.

The Group's allocation to growth assets is 48% of Shareholders' funds as at 30 June 2016. Within the growth asset allocation, alternative investments accounted for 22% of Shareholders' funds. The credit quality of the Group's investment book is strong, with approximately 77% of the fixed interest and cash portfolio rated in the 'AA' category or higher as at 30 June 2016.

### 3.8 REGULATION

As a provider of general insurance products, the Group is subject to ongoing oversight by regulators in the markets in which it operates.

The insurance and financial services sectors are likely to be the subject of government and regulatory focus in coming years, including as a result of the Australian Government's Financial System Inquiry and Competition Policy Review, other inquiries or reviews that have been foreshadowed by the Australian Government, Australian state governments and relevant foreign governments and reforms by global regulatory bodies. From time to time, there may be outcomes of reviews or regulatory changes that could impact the Group's operations.

The Group liaises with its key regulators in relation to a variety of issues in its sector, and there are currently a number of regulatory reviews completed or underway that could impact the Group. For example, some of the more significant, or well progressed, of these reviews include:

#### 3.8.1 Australia

##### **Reform of the New South Wales ("NSW") Compulsory Third Party ("CTP") insurance scheme**

The NSW Government announced its proposal for CTP reform in June 2016. This proposal entails implementation of a hybrid no-fault scheme and the introduction of defined benefits for low severity injuries, while retaining access to common law for the most seriously injured and, for the first time, extending protection to at-fault road users. The reform proposals deal with a number of issues, including the need for greater competition in the NSW CTP scheme and reduced incidence of legal costs. Anticipated outcomes of the reform proposals are lower premiums, greater certainty in claims costs and reduced average settlement times.



### **Abolition of the NSW Emergency Services Levy**

In December 2015, the NSW Government announced it would abolish the Emergency Services Levy on insurance policies and replace it with an Emergency Services Property Levy, paid alongside council rates, with effect from 1 July 2017. The NSW Government has appointed an Emergency Services Levy Insurance Monitor to ensure that insurers pass on the cost savings to consumers and businesses. Abolition of the Emergency Services Levy is expected to result in a reduction in the Group's annual GWP with an offsetting decline in administration expenses, from the financial year ending 30 June 2018.

### **ASIC report on add-on insurance**

ASIC released a report on the sale of add-on insurance through car dealers on 12 September 2016. The report found that add-on insurance sold through this distribution channel represents poor value for consumers and is designed and sold in a way that may not meet consumers' needs. On 6 August 2016, IAG subsidiary Swann Insurance (Aust) Pty Ltd sold its distribution rights to the motor vehicle dealer channel to Eric Insurance Limited, effectively ending the Group's future involvement in the motor vehicle dealer channel. IAG has been actively reviewing its remaining add-on insurance products to support changes to the pricing, design and sale of add-on insurance and is working closely with ASIC and the Insurance Council of Australia to remediate past conduct, improve customer outcomes and enhance governance arrangements in this market.

## **3.8.2 New Zealand**

### **Reform of the Earthquake Commission ("EQC")**

The New Zealand Government continues to consider proposed changes to the Earthquake Commission Act 1993 which governs the operations of the EQC. The major areas of focus are the separation of site works and building cover and ensuring all claims are lodged with private insurers, with the latter expected to be resolved outside the regulatory process. The proposals include:

- the EQC exiting contents insurance and leaving this area entirely to private insurers;
- extending EQC building cover to include more site works and access-ways to buildings, mirroring industry practice in commercial claims;
- increasing the cap on EQC building cover from NZ\$100,000 (plus goods and services tax) to NZ\$200,000 (plus goods and services tax), with the possibility of ring-fencing some of this to cover site works; and
- limiting EQC land cover to situations where rebuilding is not practicable.

Timeframes for this reform have yet to be finalised. If implemented, it is expected the proposed EQC reforms will cause minimal change to revenue but require considerable operational change.

## **Fire services reform**

The Minister of Internal Affairs has announced changes to New Zealand's fire services model. A unified organisation, Fire and Emergency New Zealand, is proposed to be funded by an expanded fire levy paid on insurance for contents, property and vehicles. Legislation outlining these changes was introduced to Parliament in June 2016 and if passed will come into force from July 2017. Regulations, including a levy rate increase for 2017-18, are yet to be announced, while an extension of the levy to include insurance on material damage (rather than just fire damage) and third party motor vehicle insurance will come into force from July 2018. Specific details of how the levy will attach to these policies are yet to be announced, with this expected to determine the scale and complexity of the impact on IAG.

## **3.8.3 Asia**

### **Tariff reform in Malaysia**

The operating landscape in Malaysia is expected to evolve with regulatory-driven liberalisation over the next few years, beginning with the phased removal of pricing regulation on motor and fire insurance policies. AmGeneral Insurance Berhad (a wholly owned subsidiary of AmGeneral Holdings Berhad, in which IAG holds a 49% interest) is well prepared for the tariff reform.

# FINANCIAL INFORMATION.

## 4.1 INTRODUCTION

The summary financial information (other than the pro forma information) presented in this section has been taken from the Group audited financial statements for the financial year ended 30 June 2016.

The information has, except as otherwise noted, been prepared in accordance with the measurement and recognition requirements, but not the disclosure requirements, of Australian Accounting Standards and other mandatory reporting requirements in Australia. The summary financial information is presented in Australian dollars, unless otherwise stated.

Investors should note that past performance is not a reliable indicator of future performance.

The Group's financial performance and position are critical to understanding IAG's ability to meet its obligations, including those owed to you. If you do not understand this sort of financial information, IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser.

Further information on the financial statements can be found in the 2016 Annual Report.



## 4.2 SELECTED FINANCIAL INFORMATION

The financial information set out in the tables below shows the summary financial performance and financial position of the Group and of IAG. Balance sheet information is presented both on a reported basis and on a pro forma basis to

illustrate the impact of the issuance of the Capital Notes, buy-back of CPS, off-market share buy-back (net of transaction costs) and redemption of the 2011 NZ\$ Bonds and the 2006 GBP Notes. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

### 4.2.1 Selected reported and pro forma financial information for the Group

	Reported FY2015	Reported FY2016	Pro forma adjustments for the Offer <sup>1</sup>	Other pro forma adjustments <sup>2</sup>	Pro forma FY2016
(Financial year ended 30 June)	\$m	\$m	\$m	\$m	\$m
Gross written premium ("GWP")	11,440	11,367			
Revenues (gross earned premium or "GEP")	11,525	11,411			
Net earned premium (GEP less outwards reinsurance premium expense)	10,329	7,528			
Net profit after tax	830	702		(1)	701
Net cash flows from operating activities	698	(1,946)			
Cash and cash equivalents	1,433	1,104	293	(1,051)	346
Total assets <sup>3</sup>	31,402	30,030	293	(1,049)	29,274
Total debt	1,762	1,962	293	(732)	1,523
Total liabilities <sup>3</sup>	24,384	23,245	293	(732)	22,806
Total equity	7,018	6,785		(317)	6,468

<sup>1</sup> Pro forma for the issuance of Capital Notes. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

<sup>2</sup> Pro forma for the buy-back of CPS, redemption of the 2011 NZ\$ Bonds and the 2006 GBP Notes, off-market share buy-back (net of transaction costs) and impact of writing off unamortised transaction costs. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

<sup>3</sup> The pro forma adjustments reflect \$300 million being raised through the Offer. Any additional amounts raised will, excluding the impact of transaction costs, result in a corresponding increase in pro forma assets and liabilities of the Group.

#### 4.2.2 Selected reported and pro forma financial information for IAG

	Reported FY2015	Reported FY2016	Pro forma adjustments for the Offer <sup>1</sup>	Other pro forma adjustments <sup>2</sup>	Pro forma FY2016
(Financial year ended 30 June)	\$m	\$m	\$m	\$m	\$m
Investments	–	37			37
Receivables from/loans to related bodies corporate	527	241			241
Current tax assets	–	6		1	7
Investment in controlled entities, associates and joint ventures	13,306	13,364			13,364
Other	84	56			56
Total assets	13,917	13,704	–	1	13,705
Payable to/borrowings from related bodies corporate	3,408	3,550	(293)	1,051	4,308
Current tax liabilities	34	–			–
Interest bearing liabilities	862	1,061	293	(732)	622
Other	58	19		(1)	18
Total liabilities	4,362	4,630	–	318	4,948
Total net assets	9,555	9,074	–	(317)	8,757

<sup>1</sup> Pro forma for the issuance of Capital Notes. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

<sup>2</sup> Pro forma for the buy-back of CPS, redemption of the 2011 NZ\$ Bonds and the 2006 GBP Notes, off-market share buy-back (net of transaction costs) and impact of writing off unamortised transaction costs. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

#### 4.2.3 Financial ratios for the Group

(Financial year ended 30 June)	Reported FY2015 <sup>1</sup>	Reported FY2016 <sup>1</sup>
<b>Loss ratio</b> <i>The loss ratio refers to the net claims expense as a percentage of net earned premium. A high ratio may indicate high claims expenses.</i>	67.2%	65.6%
<b>Expense ratio</b> <i>The expense ratio refers to the underwriting expenses as a percentage of net earned premium. A high ratio may indicate high underwriting and commission expenses.</i>	27.6%	25.7%
<b>Combined ratio</b> <i>The combined ratio refers to the sum of the loss ratio and expense ratio.</i>	94.8%	91.3%
<b>Underlying insurance margin<sup>2</sup></b> <i>The insurance margin refers to the insurance profit, which is the sum of the underwriting result plus investment income on technical reserves, as a percentage of net earned premium.</i>	13.1%	14.0%

<sup>1</sup> The financial metrics are based on the management reported results. Refer to page 7 of the 2016 Annual Report for a reconciliation between the statutory and management reported results.

<sup>2</sup> IAG defines the underlying margin as the reported insurance margin adjusted for: net natural peril claim costs less related allowance; reserve releases in excess of 1% of NEP; and credit spread movements. It is provided to give management's view of normalised performance.

## 4.3 REINSURANCE PROGRAMME

### 4.3.1 Reinsurance strategy

The Group's philosophy is to limit its main catastrophe retention (i.e. the exposure the Group has to an event or series of events) to a maximum of 4% of net earned premium. Its current retentions are below this level. In addition, the limits purchased reflect a modelled 1-in-250 year return period in Australia and are more conservative than the Australian regulator's requirement. The Group Reinsurance Management Strategy is reviewed and approved annually by the Board and submitted to APRA.

As part of the strategic relationship with Berkshire Hathaway, the Group entered into a ten-year, 20% whole-of-account quota share arrangement, commencing 1 July 2015 for losses occurring after that date. Under the quota share arrangement, Berkshire Hathaway receives an amount equal to 20% of the Group's GWP and pays 20% of its claims, and also reimburses the Group for its share of operating costs and pays a commission to the Group. The quota share serves to reduce the Group's earnings volatility and reduce insurance risk, which reduces the amount of capital the Group is required to have and has materially reduced the amount of reinsurance required to be sourced from the third party market, in particular catastrophe cover. The application of the quota share means that all of the Group's net retentions are reduced by 20% with effect from 1 July 2015.

The Group also has a quota share agreement with Munich Re which covers 30% of the Group's compulsory third party ("CTP") business written in New South Wales, the Australian Capital Territory and South Australia. For the first four years from 1 July 2016 the quota share is fixed at 30%, and for a further two years IAG may maintain or reduce the percentage of the quota share. It serves to reduce the Group's capital requirement and earnings volatility in relation to CTP business. Together with the quota share agreement with Berkshire Hathaway, the Munich Re quota share means 50% of the Group's CTP business is subject to quota share.

### 4.3.2 Catastrophe reinsurance cover

The Group's catastrophe reinsurance protection covers all perils to which the Group is exposed in all territories in which the Group underwrites, with the exception of the Group's interest in India, Indonesia and China which are required to have their own reinsurance arrangements.

When designing the reinsurance programme, consideration is given to the 1-in-250 year return period from each territory in which the Group is exposed. Territorial coverage within the programme ensures that each territory is adequately protected up to the 1-in-250 year return period, with New Zealand protected up to the 1-in-1,000 year return period.

The Group is exposed to the credit risk that its reinsurers may default on, or dispute, their obligation to pay claims. To manage default credit risk, the Group purchases reinsurance from counterparties with high credit ratings (i.e. lower chance of default). The overall credit quality of the current programme is high, with 89% placed with entities rated A+ or better. The majority of the programme is currently renewed annually and, as opportunities arise, the composition of the counterparties and the credit profile of the counterparties will change over time. Further risks relating to reinsurance are discussed in Section 5.2.2.

Catastrophe reinsurance for the calendar year commencing 1 January 2016 provides gross reinsurance protection for losses up to \$7 billion (NZ\$7 billion in respect of losses in New Zealand). After allowing for the 20% quota share arrangement with Berkshire Hathaway, the Group retains, for each loss, the first \$200 million for Australia, NZ\$200 million for New Zealand and \$20 million for Thailand and Malaysia and less than \$1 million for Vietnam and Indonesia. An aggregate cover provides additional protection of \$360 million for aggregate losses in excess of \$300 million from qualifying events, after allowing for the quota share arrangement with Berkshire Hathaway.

The level of reinsurance cover for 2016 is consistent with the level of cover for 2015. This reflects the Group's stable overall aggregate exposure, with modest growth

in the underlying business being offset by reduced exposure to large corporate property risks for which renewal rights were transferred to Berkshire Hathaway as part of the strategic relationship.

In relation to the recent trans-Tasman storm and New Zealand earthquake events, although the gross cost from these events is still uncertain, it is anticipated that a net cost of approximately \$200 million will be incurred by the Group. Based on the reinsurance covers currently in place, assuming a net combined cost of \$200 million for the two events, the Group's maximum event retention becomes \$20 million in Australia and NZ\$20 million in New Zealand, until 31 December 2016.

A description of the risks relating to the Group's reinsurance arrangements can be found in Section 5.2.2.

## 4.4 CAPITAL MANAGEMENT STRATEGY AND CAPITAL RATIOS

### 4.4.1 Capital adequacy

For regulatory purposes, the capital of the Group is classified as follows:

- Common Equity Tier 1 Capital, broadly comprising accounting equity with adjustments for intangible assets and regulatory reserves;
- Additional Tier 1 Capital, comprising certain hybrid capital instruments with 'equity-like' qualities (such as the Capital Notes) and certain adjustments; and
- Tier 2 Capital, comprising certain securities recognised as Tier 2 Capital.

The Group's total regulatory capital is the sum of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

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

APRA also prescribes a minimum level of Common Equity Tier 1 Capital, being 0.6 times PCA. The Group currently has a long-term Common Equity Tier 1 Capital benchmark of 0.9 to 1.1 times PCA.

#### 4.4.2 Capital management and funding

The Group's capital management strategy aims to achieve an amount and mix of capital that are appropriate for its business needs, risk appetite and delivery of sustainable attractive returns to Shareholders. The Group's Internal Capital Adequacy Assessment Process ("ICAAP") provides the framework to ensure that the Group is independently capitalised to meet internal and external requirements. The target level of capitalisation for the Group is assessed taking into account, among other factors:

- the probability of IAG (or another member of the Group) becoming insolvent over the next one to three years;

- the probability of the Group failing to hold the minimum amounts of regulatory capital required by APRA over the next one to three years;
- the views of other relevant parties on the Group's capitalisation, including capital models of rating agencies, and associated ratings; and
- the capitalisation levels in the Australian and international industries.

The ICAAP is reviewed annually and, where appropriate, adjustments are made to reflect changes in economic conditions and risk characteristics of the Group's business activities.

As part of the Group's ongoing capital management strategy and objective of maximising total Shareholder returns, in October 2016 the Group successfully completed an off-market Ordinary Share buy-back of approximately \$314 million, which amounts to approximately 64 million Ordinary Shares or 2.6% of ordinary issued capital.

#### 4.4.3 Capital mix

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

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

As at 30 June 2016, the Group's capital mix was within the target range, with debt and hybrids representing 36.8% of total tangible capitalisation.

With the pro forma adjustments mentioned in Section 4.4.4, the percentage of debt and hybrids will remain within the Group's target range of 30% to 40% of total tangible capitalisation.

	Target	Reported FY2016		Pro forma <sup>1</sup> FY2016	
(Financial year ended 30 June)	%	\$m	%	\$m	%
Ordinary equity less goodwill and intangible assets	60 – 70	3,375	63.2	3,058	66.8
Interest bearing liabilities – hybrid securities and debt	30 – 40	1,962	36.8	1,523	33.2
Total tangible capitalisation		5,337	100.0	4,581	100.0

<sup>1</sup> Pro forma for the issuance of Capital Notes, buy-back of CPS, off-market share buy-back (net of transaction costs) and redemption of the 2011 NZ\$ Bonds and the 2006 GBP Notes. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

The Group's interest bearing liabilities stood at \$1,962 million at 30 June 2016, compared to \$1,781 million at 31 December 2015. The net increase of \$181 million is explained by:

- the issue of NZ\$350 million of unsecured subordinated convertible notes in June 2016; and
- a NZ\$138 million reduction in outstanding 2011 subordinated fixed rate bonds, following acceptance of a re-investment offer in respect of the above mentioned issue.

	Reported FY2016	Pro forma <sup>1</sup> FY2016
(Financial year ended 30 June)	\$m	\$m
<b>I. Capital nature</b>		
a. ADDITIONAL TIER 1 CAPITAL		
Capital Notes	–	300
CPS	377	–
RES <sup>2</sup>	550	550
b. TIER 2 CAPITAL		
GBP subordinated term notes	178	–
NZ\$ subordinated term bonds	179	–
A\$ subordinated convertible term notes	350	350
NZ\$ subordinated convertible term notes	335	335
<b>II. Operational nature</b>		
Other interest bearing liabilities	2	2
Less: capitalised transaction costs	(9)	(14)
<b>Total interest bearing liabilities</b>	<b>1,962</b>	<b>1,523</b>

<sup>1</sup> Pro forma for the Offer, buy-back of CPS, redemption of the 2011 NZ\$ Bonds and the 2006 GBP Notes, off-market share buy-back (net of transaction costs) and impact of writing off unamortised transaction costs. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

<sup>2</sup> These instruments are eligible for recognition as Tier 1 Capital. Under APRA's transitional arrangements for securities issued before 1 January 2013, the amount of RES eligible to be included in Tier 1 Capital is reducing at a rate of 10% per annum. The amount that is ineligible to be included in Tier 1 Capital will be included in Tier 2 Capital to the extent that there is capacity under APRA's transitional limits for the Group's Tier 2 Capital.

Under the CPS Terms, IAG may elect to exchange the CPS on 1 May 2017. IAG will consider buying back the outstanding CPS on that date, subject to a number of factors including satisfactory completion of the Offer and market conditions closer to 1 May 2017. Although no decision to make an election has yet been made, the buy-back of the CPS is reflected in the financial information set out above. The reduction of Tier 1 Capital by the residual amount of the CPS on 1 May 2017 as a consequence of the buy-back of the CPS is also shown. If the CPS are not bought back on 1 May 2017, they will cease to be eligible for inclusion in regulatory

capital on account of the end of APRA's transitional treatment for that instrument.

IAG also has two Tier 2 Capital instruments on issue, the 2011 NZ\$ Bonds and the 2006 GBP Notes, that IAG has elected to redeem on 15 December 2016 and 21 December 2016, respectively. Under APRA's eligibility criteria, the aggregate amount of these securities (together with the amount of RES that are ineligible to be included in Tier 1 Capital) eligible to be included as Tier 2 Capital of the IAG Level 2 Insurance Group has been reducing annually since 1 January 2013.

The IAG Level 2 Insurance Group's regulatory capital will reduce by the residual amount (in Australian dollars) of the 2011 NZ\$ Bonds and the 2006 GBP Notes that is being included as Tier 2 Capital as at 15 December 2016 and 21 December 2016, respectively.

As a result, the redemption of these capital instruments is reflected in the financial information set out above. The reduction of Tier 2 Capital by the residual amount of the 2011 NZ\$ Bonds and the 2006 GBP Notes that is being included as Tier 2 Capital on 15 December 2016 and 21 December 2016 is also shown.

#### 4.4.4 Pro forma regulatory capital position

The following table sets out the Group's pro forma regulatory capital position as at 30 June 2016, after adjusting for the below assumptions:

- \$300 million is raised through the Offer. The instrument is to be eligible for recognition as Additional Tier 1 Capital;
- the \$314 million off-market share buy-back (and associated transaction costs) completed on 10 October 2016;
- the buy-back of \$377 million of CPS through the Reinvestment Offer or on the upcoming reset date for CPS, being 1 May 2017, currently eligible for recognition as Additional Tier 1 Capital<sup>1</sup>;
- the redemption of \$179 million (NZ\$187 million equivalent) of 2011 NZ\$ Bonds on 15 December 2016; and
- the redemption of \$178 million (GBP 100 million equivalent) of 2006 GBP Notes on 21 December 2016.

The pro forma adjustments do not include movements in the Group's balance sheet from 30 June 2016 to the date of lodgement of this Prospectus with ASIC, including corporate activities that completed post 30 June 2016, with the exception of the off-market share buy-back.

The PCA multiple is calculated based on the APRA requirements for a Level 2 Insurance Group and remains above the Group's long-term capital benchmark of 1.4 to 1.6 times APRA's minimum PCA.

	Reported FY2016	Pro forma adjustments for the Offer <sup>1</sup>	Other pro forma adjustments <sup>2</sup>	Pro forma FY2016
(Financial year ended 30 June)	\$m	\$m	\$m	\$m
Common Equity Tier 1 Capital	2,838		(317)	2,521
Additional Tier 1 Capital	707	300	(377)	630
Total Tier 1 Capital	3,545	300	(694)	3,151
Tier 2 Capital	1,074		(170)	904
<b>Total regulatory capital</b>	<b>4,619</b>	<b>300</b>	<b>(864)</b>	<b>4,055</b>
Total PCA	2,682	29	(105)	2,606
<b>PCA multiple</b>	<b>1.72 ×</b>			<b>1.56 ×</b>
<b>Common Equity Tier 1 multiple</b>	<b>1.06 ×</b>			<b>0.97 ×</b>

<sup>1</sup> Pro forma for the issuance of Capital Notes. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

<sup>2</sup> Pro forma for the buy-back of CPS, redemption of the 2011 NZ\$ Bonds and the 2006 GBP Notes, off-market share buy-back (net of transaction costs) and impact of writing off unamortised transaction costs. See Section 4.4.4 for further detail on the assumptions supporting the pro forma calculations.

#### 4.4.5 Option to place additional shares to Berkshire Hathaway

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

The price payable by Berkshire Hathaway if IAG exercises the option is based on the volume weighted average price of

Ordinary Shares ("Option VWAP") over the five days prior to the exercise of the option, and is capped at \$6.50 per Ordinary Share. For example, at an Option VWAP of \$ 5.50, the amount received from Berkshire Hathaway on issue of the Ordinary Shares would amount to a capital injection for IAG of \$665.5 million. If the option is exercised, the Option VWAP that applies may be higher or lower than the Option VWAP used in this example.

<sup>1</sup> Under the CPS Terms, IAG may elect to exchange the CPS on 1 May 2017. IAG will consider buying back the outstanding CPS on that date, subject to a number of factors including satisfactory completion of the Offer and market conditions closer to 1 May 2017. No decision to make an election has yet been made.

# 5

## INVESTMENT RISKS.

**This section describes some of the risks associated with an investment in the Capital Notes and in IAG. This section describes certain:**

- general risks associated with an investment in the Capital Notes;
- significant specific risks associated with a Non-Viability Trigger Event; and
- other risks associated with the Capital Notes specifically.

Investors should also consider the high level business risks outlined in IAG's Annual Reports, which are available at [www.iag.com.au/results-and-reports](http://www.iag.com.au/results-and-reports).

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

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

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

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

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

In addition, this Prospectus sets out IAG's businesses, strategies and risks as they are currently understood. Business conditions, regulations and IAG's business models are continually evolving and may change considerably over the lifetime of the Capital Notes. There is a risk that your investment may not respond appropriately.



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## 5.1 RISKS ASSOCIATED WITH INVESTING IN THE CAPITAL NOTES

### 5.1.1 Market price of Capital Notes

There is a risk that the market price of Capital Notes may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions, interest rates, movements in foreign exchange rates, movements in the market price of Ordinary Shares or senior or subordinated debt, the occurrence or potential occurrence of a Non-Viability Trigger Event or factors resulting in IAG deciding or not being permitted to make payments on the Capital Notes, the effect of any Exchange or Write-Off on the amount outstanding (if any) of the Capital Notes on issue, the risk of early Exchange following a Tax Event or Regulatory Event, and factors that may affect IAG's financial performance and position. Capital Notes may trade at a market price below the Issue Price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of IAG and the Group. There is no guarantee that Capital Notes will remain continuously quoted on ASX or will not be suspended from Trading. ASX has broad powers to suspend the Capital Notes, including because IAG has not complied with the ASX Listing Rules.

The market price of Capital Notes may be more sensitive than that of Ordinary Shares to changes in interest rates and credit spreads. Increases in relevant interest rates or IAG's credit spread may adversely affect the market price of Capital Notes. In recent years, markets have been more volatile at times. Volatility risk is the potential for fluctuations in the price of securities, sometimes markedly and over a short period. Investing in volatile conditions implies a greater level of volatility risk for investors than an investment in a more stable market.

You should carefully consider this additional volatility risk before deciding whether to make an investment in Capital Notes.

The Ordinary Shares issued on Conversion will rank equally with existing Ordinary Shares and their ongoing value will reflect the market price of Ordinary Shares after the Mandatory Conversion Date or other date on which Capital Notes are Converted. That market is also subject to the factors outlined above and may also be volatile.

### 5.1.2 Liquidity

There is a risk that there may be no liquid market for Capital Notes. Although IAG intends to have the Capital Notes quoted on ASX, there is no guarantee that a liquid market will develop for Capital Notes. The market for Capital Notes may be less liquid than the market for Ordinary Shares or comparable securities issued by IAG or other entities and may be volatile. The market price of Capital Notes is likely to fluctuate and, if Capital Note Holders wish to sell or otherwise transfer their Capital Notes prior to Exchange, they may be unable to do so at a price acceptable to them, or at all, if insufficient liquidity exists in the market for Capital Notes.

Capital Notes are expected to Convert into Ordinary Shares on 16 June 2025 (subject to certain conditions being satisfied) unless Capital Notes are otherwise Exchanged on or before that date. Where Capital Notes are Converted, there may be no liquid market for Ordinary Shares at the time of Conversion or the market for Ordinary Shares may be less liquid than that for comparable securities issued by other entities, at the time of Conversion.

### 5.1.3 Fluctuation in Ordinary Share price

There is a risk that the market price of the number of Ordinary Shares received per Capital Note on Conversion will be less than the Issue Price of the Capital Note, and may fluctuate afterwards.

Where the Capital Notes are Converted other than on account of a Non-Viability Trigger Event, the number of Ordinary Shares issued per Capital Note is calculated to have a value of approximately \$101 per Capital Note (calculated on the VWAP basis provided in

the Capital Notes Terms). But the market price of the Ordinary Shares issued upon Conversion will likely be different from the VWAP used in the Conversion calculations, and will also fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions and IAG's financial performance and position (see Section 5.1.1), and could be less than the Issue Price. Where the Capital Notes are converted on account of a Non-Viability Trigger Event, the number of Ordinary Shares issued could be worth less than \$101 per Capital Note and, in addition, the Non-Viability Trigger Event is likely to be accompanied by a deterioration in the market price of the Ordinary Shares. In relation to Conversion on account of a Non-Viability Trigger Event – see further detail in Section 5.1.8.

Other events and conditions may affect the ability of Capital Note Holders to trade or dispose of the Ordinary Shares issued on Conversion, for example, the willingness or ability of ASX to accept the Ordinary Shares issued on Conversion for quotation or any practical issues which affect that quotation, whether ASX has suspended trading in Ordinary Shares, any disruption to the market for the Ordinary Shares or to capital markets generally, the availability of purchasers for Ordinary Shares and any costs or practicalities associated with trading or disposing of Ordinary Shares at that time, or laws of general application, including securities law and laws relating to the holding of shares and other interests in financial institutions, which limit a person's ability to acquire or dispose of Ordinary Shares. The ASX has broad powers to suspend Ordinary Shares, including because IAG has not complied with the ASX Listing Rules.



#### 5.1.4 Distributions may not be paid

There is a risk that Distributions will not be paid. The Capital Notes Terms do not oblige IAG to pay Distributions.

The payment of a Distribution is subject to IAG's absolute discretion and to no Payment Condition existing in respect of the relevant Distribution Payment Date (see Section 2.1.7). The Payment Conditions require, among other things, that, unless APRA otherwise approves, paying the Distribution would not result in the Group not complying with APRA's capital adequacy requirements. Further, the Payment Conditions prevent a Distribution to be paid if that would result in IAG becoming, or being likely to become, insolvent or APRA objects to the payment of the Distribution. There is a risk that one or more elements of the Distribution Payment Tests will not be satisfied or that IAG could exercise its discretion not to pay Distributions at any time and for any (or no) reason, and there is therefore, a risk that a Distribution may not be paid in full or at all.

The Capital Notes Terms contain no events of default and accordingly, failure to pay a Distribution when scheduled will not constitute an event of default. Further, in the event that IAG does not pay a Distribution when scheduled, a Capital Note Holder:

- has no right to apply for IAG to be wound up or placed in administration, or to cause a receiver or a receiver and manager to be appointed in respect of IAG merely on the grounds that IAG does not pay a Distribution when scheduled; and
- will have no right of set-off and no offsetting rights or claims on IAG.

Distributions are non-cumulative, and therefore if a Distribution is not paid Capital Note Holders will have no recourse whatsoever to payment from IAG and will not receive payment of those Distributions.

However, if IAG does not pay a Distribution in full on a Distribution Payment Date, then the Distribution Restriction applies

to IAG unless the Distribution is paid in full within three Business Days of that date. However, the Distribution Restriction may be less extensive than the corresponding distribution restriction in IAG's other securities and the duration for which it applies may be shorter than the corresponding distribution restriction in IAG's other securities – see further detail in Section 5.1.17.

IAG may also be prevented from paying Distributions by the terms of other securities if a dividend or other distribution has not been paid on those securities. If such a constraint applies, IAG may not be able to pay Distributions without the approval of the holders of those other securities.

Changes in regulations applicable to IAG may impose additional requirements which prevent IAG from paying a Distribution in additional circumstances.

#### 5.1.5 Changes in Distribution Rate

There is a risk that the rate of return in respect of the Capital Notes may become less attractive when compared to rates of return available on comparable securities issued by IAG or other entities. The Distribution Rate is calculated for each Distribution Period by reference to the Bank Bill Rate, which is influenced by a number of factors and varies over time. The Distribution Rate will fluctuate (both increasing and decreasing) over time as a result of movements in the Bank Bill Rate – see Sections 2.1.2 and 2.1.3.

#### 5.1.6 Capital Notes are perpetual and Mandatory Conversion may not occur on the Scheduled Mandatory Conversion Date or at all

There is a risk that Mandatory Conversion may not occur on the Scheduled Mandatory Conversion Date or at all. Capital Notes are expected to Convert into Ordinary Shares on 16 June 2025 (subject to certain conditions being satisfied, unless Exchanged or Written-Off prior to that date). However, there is a risk that Conversion will not occur because the Mandatory Conversion Conditions are

not satisfied due, for example, to a large fall in the Ordinary Share price relative to the Issue Date VWAP, or where a Delisting Event applies. The Ordinary Share price may be affected by transactions affecting the share capital of IAG, such as rights issues, placements, returns of capital, certain buy-backs and other corporate actions. The Issue Date VWAP is adjusted only for transactions by way of the pro rata bonus issues of Ordinary Shares and consolidation, division or reclassification of Ordinary Shares as described in clauses 8.5 and 8.6 of the Capital Notes Terms and not for other transactions, including rights issues, placements, returns of capital, buy-backs or special dividends. The Capital Notes Terms do not limit the transactions which IAG may undertake with respect to its share capital (except in limited circumstances where a Distribution has not been paid in full on a scheduled Distribution Payment Date) and any such action may affect whether Conversion will occur and may adversely affect the position of Capital Note Holders.

If Mandatory Conversion does not occur on the Scheduled Mandatory Conversion Date, then Mandatory Conversion would occur on the next Distribution Payment Date on which all of the Mandatory Conversion Conditions are satisfied unless Capital Notes are otherwise Exchanged or Written-Off on or before that date. If Mandatory Conversion does not occur on a possible Mandatory Conversion Date and Capital Notes are not otherwise Exchanged or Written-Off, Distributions may continue to be paid on Capital Notes, subject to IAG's discretion and to no Payment Condition existing in connection with the relevant Distribution Payment Date.

Capital Notes are a perpetual instrument. If the Ordinary Share price deteriorates significantly and never recovers or a Delisting Event continues to subsist, it is possible that the Mandatory Conversion Conditions will never be satisfied and, if this occurs, Capital Notes will never Convert under the Mandatory Conversion provisions.

### 5.1.7 Exchange and the Exchange Method are at IAG's option

There is a risk that Exchange may occur on dates not previously contemplated by Capital Note Holders, or using an Exchange Method which may be disadvantageous in light of market conditions or Capital Note Holders individual circumstances and preferences.

IAG may (subject to APRA's prior written approval) elect to Exchange some or all Capital Notes on the Optional Exchange Date or on the occurrence of a Tax Event or a Regulatory Event and may elect to Convert all (but not some) Capital Notes after a Potential Acquisition Event. Capital Note Holders should not assume that APRA's approval will be given if requested. In addition, IAG must (subject to certain conditions) Convert all Capital Notes on the occurrence of an Acquisition Event. Capital Note Holders have no right to request or require an Exchange.

Any Exchange at IAG's option may occur on dates not previously contemplated by Capital Note Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Capital Note Holders will be entitled to the benefit of the rights attaching to Capital Notes (such as Distributions) is unknown.

Subject to certain conditions, IAG also has discretion to elect which Exchange Method or combination of Exchange Methods will apply to an Exchange and where a combination of Exchange Methods is selected, to which Capital Notes and Capital Note Holders the Exchange Method will apply (see Sections 2.3.1, 2.3.4 and 2.3.6). The method chosen by IAG may be disadvantageous to Capital Note Holders and may not coincide with their individual preference in terms of whether they receive Ordinary Shares or cash on the relevant date.

For example, if APRA approves an election by IAG to Redeem or Resell the Capital Notes, Capital Note Holders will receive cash equal to \$100 per Capital Note rather than Ordinary Shares and accordingly, they will not benefit from any subsequent increases in the Ordinary Share price after the Exchange occurs. In addition, where Capital Note Holders receive cash on Redemption or Resale, the rate of return at which they could reinvest their funds may be lower than the Distribution Rate at the time. Where Capital Note Holders receive Ordinary Shares on Conversion, they will have the same rights as other holders of Ordinary Shares, which are different to the rights attaching to Capital Notes.

### 5.1.8 Conversion on account of a Non-Viability Trigger Event

There is a risk that a Non-Viability Trigger Event will occur, in which case IAG must Convert Capital Notes into Ordinary Shares. This could be at any time. If a Non-Viability Trigger Event occurs, a Capital Note Holder may suffer a significant loss as they may receive Ordinary Shares worth significantly less than approximately \$101 per Capital Note and if for any reason Conversion of Capital Notes has not been effected within five Business Days after the relevant Trigger Event Date the Capital Notes will be Written-Off.

A Non-Viability Trigger Event means APRA has provided a written determination to IAG that:

- conversion or write-off of Relevant Securities (including the Capital Notes) is necessary because, without it, APRA considers that IAG would become non-viable; or
- without a public sector injection of capital (or equivalent support), IAG would become non-viable.

#### *Non-Viability Trigger Event*

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

If APRA makes a determination that only some Capital Notes are required to be Converted, IAG must endeavour to treat Capital Note Holders and holders of other Relevant Securities on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels of Capital Notes and Relevant Securities and other logistical considerations. Accordingly, should a Non-Viability Trigger Event occur and APRA makes a determination that only some Capital Notes be Converted, not all Capital Note Holders may have their Capital Notes Converted to Ordinary Shares.

Capital Note Holders should be aware that:

- if APRA does not require all Relevant Securities and Tier 2 Capital instruments to be converted or written-off, Relevant Securities such as Capital Notes will be converted or written-off before any Tier 2 Capital instruments are converted or written-off;
- On the occurrence of a Non-Viability Trigger Event, APRA may determine that the Capital Notes must be Converted into Ordinary Shares; however, other equally ranking IAG securities (such as RES Preference Shares, if issued) may not be required to be converted. This may result in the Capital Notes investment effectively ranking lower in IAG's capital structure than other previously equal ranking securities;
- IAG has no Relevant Securities on issue other than CPS. RES are not Relevant Securities (and may not be converted or written-off before or pro rata with Capital Notes); and
- IAG has no obligation to maintain on issue any Relevant Securities and does not, and may never, have on issue Relevant Securities which require them to be converted or written-off before Capital Notes.

APRA has not provided guidance as to how it would determine non-viability. Non-viability could be expected to include serious impairment of IAG's financial position; however, it is possible that APRA's definition of non-viable may not necessarily be constrained to capital measures and APRA's position on these matters may change over time. As the occurrence of a Non-Viability Trigger Event is at the discretion of APRA, there can be no assurance given as to the factors and circumstances that might give rise to this event.

Non-viability may be significantly impacted by a number of factors, including factors which affect the business, operation and financial condition of IAG. For instance, systemic and non-systemic macro-economic, environmental and operational factors, globally and in Australia, New Zealand and Asia, may affect the viability of IAG.

#### *Effect of a Non-Viability Trigger Event*

If a Non-Viability Trigger Event occurs, IAG must Convert all (or some) Capital Notes on issue (as specified in APRA's determination) into the Conversion Number of Ordinary Shares. Where a Non-Viability Trigger Event occurs because APRA determines that without a public sector injection of capital (or equivalent support) IAG would become non-viable, all Capital Notes will be Converted. Conversion on the occurrence of a Non-Viability Trigger Event is not subject to the Mandatory Conversion Conditions being satisfied. The number of Ordinary Shares a Capital Note Holder will receive on Conversion following a Non-Viability Trigger Event is calculated in accordance with the Conversion Number formula which provides for a calculation based on a discounted five Business Day VWAP but cannot be more than the Maximum Conversion Number. Accordingly, this may result in a Capital Note Holder receiving Ordinary Shares worth significantly less than approximately \$101 per Capital Note and suffering loss as a result. This is because:

- the number of Ordinary Shares is limited to the Maximum Conversion Number and this number of Ordinary Shares may have a value of less than \$101;
- where the number of Ordinary Shares is calculated by reference to the five Business Day VWAP, the VWAP during the five Business Days before the Trigger Event Date may differ from the Ordinary Share price on or after that date. The Ordinary Shares may not be quoted or may not be able to be sold at prices representing their value based on the VWAP. In particular, if Ordinary Shares are suspended from trading during the VWAP Period, VWAPs may be based wholly or partly on trading days which occurred before the Trigger Event Date. The ASX has broad powers to suspend Ordinary Shares from trading, including because IAG has not complied with the ASX Listing Rules; and
- as noted in Section 2.4.8, the Maximum Conversion Number may be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares. However, no adjustment will be made to it on account of other transactions which may affect the price of Ordinary Shares, including, for example, rights issues, returns of capital, buy-backs or special dividends. The Capital Notes Terms do not limit the transactions that IAG may undertake with respect to its share capital and any such action may increase the risk that Capital Note Holders receive only the Maximum Conversion Number and so may adversely affect the position of Capital Note Holders.

IAG may seek a trading halt to prevent further trading in Capital Notes on ASX and, if ASX permits, may refuse to register transfers of Capital Notes. This may result in disruption or failures in trading or dealing in Capital Notes and Capital Note Holders may suffer loss as a result.

#### *Write-Off if Conversion does not occur*

If, following a Non-Viability Trigger Event, Conversion of Capital Notes has not been effected within five Business Days after the relevant Trigger Event Date for any reason (including because IAG is prevented by applicable law or order of any court or action of any government authority or External Administrator (including regarding the insolvency, winding-up or other external administration of IAG) ("Inability Event")), those Capital Notes will not be Converted but will instead be Written-Off, in which case all rights in relation to those Capital Notes will be terminated (and Capital Note Holders will not get their capital back). This means that, for example, unlike Ordinary Shareholders if the Capital Notes are Written-Off Capital Note Holders will have no right to participate in a surplus of assets on a winding up of IAG.

The laws under which an Inability Event may arise include laws relating to the insolvency, winding-up or other external administration of IAG. Those laws and the grounds on which a court or government authority may make orders preventing the Conversion of Capital Notes may change and may be adverse to the interests of Capital Note Holders and the change may increase the risk of Capital Notes being Written-Off.

### 5.1.9 Conversion on an Acquisition Event

There is a risk that the Capital Notes may be affected by merger and acquisition activity affecting IAG. The Capital Notes are issued by IAG, which, as an ASX-listed company, may be acquired by, or merged with, another company or group of companies, potentially resulting in a change of control. The outcome for Capital Note Holders of such activity may be uncertain, they may suffer loss or face increased risks in holding the Capital Notes.

Where this corporate activity constitutes an Acquisition Event, as defined in the Capital Notes Terms, IAG is required, subject to satisfaction of certain conditions, to Convert all Capital Notes in accordance with clause 7 of the Capital Notes Terms. Where this corporate activity constitutes a Potential Acquisition Event, as defined in the Capital Notes Terms, IAG may (but is not required to) elect, subject to satisfaction of certain conditions, to Convert all Capital Notes in accordance with clause 5 of the Capital Notes Terms. Conversion may occur on dates not previously contemplated by Capital Note Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Capital Note Holders will be entitled to the benefit of the rights attaching to Capital Notes (such as Distributions) is unknown. Where Capital Note Holders receive Ordinary Shares on Conversion, they will have the same rights as other holders of Ordinary Shares, which are different to the rights attaching to Capital Notes.

There is a risk that Conversion may not occur on the Acquisition Conversion Date or at all because one of the restrictions on when Conversion is required or restrictions on completing a Conversion in connection with an Acquisition Event apply due, for example, to a large fall in the Ordinary Share price relative to the Issue Date VWAP, or where a Delisting Event applies. The Ordinary Share price may be affected by many factors, including transactions affecting the share capital of IAG as described in Section 5.1.6.

If Conversion does not occur on the Acquisition Conversion Date, then Conversion will occur on the following Distribution Payment Date for which the restrictions do not apply unless Capital Notes are otherwise Exchanged or Written-Off on or before that date. If Conversion does not occur on a possible Acquisition Conversion Date and Capital Notes are not otherwise Exchanged or Written-Off, Distributions may continue to be paid on Capital Notes, subject to IAG's discretion and to no Payment Condition existing in connection with the relevant Distribution Payment Date.

Capital Notes are a perpetual instrument. If the Ordinary Share price deteriorates significantly and never recovers or a Delisting Event continues to subsist, it is possible that the restrictions on Conversion will continue to apply and, if this occurs, unless Capital Notes are otherwise Exchanged, Capital Notes will never Convert.

Not all corporate activities that have the effect of a change of control of IAG or its business operations will be an Acquisition Event. In particular, it would not be an Acquisition Event if APRA were to require the compulsory transfer of the Group's insurance business. Where the corporate activity is not an Acquisition Event, IAG is not obliged to Convert the Capital Notes. Therefore, the outcomes for Capital Note Holders arising from that corporate activity will be uncertain and Capital Note Holders may suffer loss or face increased or different risks in holding the Capital Notes.

### 5.1.10 Optional Exchange by IAG is subject to certain events occurring

There is a risk that IAG may be unable to make an optional Exchange. If IAG elects to Exchange the Capital Notes by way of Conversion (other than where it is obliged to Convert), Redemption or Resale, APRA's prior written approval is required. Capital Note Holders should not assume that APRA will give its approval to any Exchange.

If IAG wishes to Exchange Notes by Converting them, there are two types of restrictions which apply:

- **restrictions on choosing to Convert**
  - IAG may not elect to Convert Capital Notes as the Exchange Method if, on the second Business Day before the date on which an Exchange Notice is to be sent:
    - the VWAP is less than or equal to 23.0000% of the Issue Date VWAP; or
    - a Delisting Event applies.

If any of the above conditions apply, IAG is not permitted to choose Conversion as the Exchange Method; and

- **restrictions on completing the Conversion** – further, if IAG has given notice that it has elected to Convert Capital Notes, IAG may not proceed to Convert Capital Notes if, on the Exchange Date specified in the notice:
  - the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) that date is less than or equal to 20.2020% of the Issue Date VWAP; or
  - a Delisting Event applies.

If the requirements for Conversion on the Exchange Date are not satisfied, IAG will notify Capital Note Holders and the Conversion will be deferred until the next Distribution Payment Date on which the requirements for Conversion would be satisfied if that Distribution Payment Date were a possible Mandatory Conversion Date.



The choice of Redemption as the Exchange Method is subject to the condition that:

- the Capital Notes which are the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality and the replacement of the Capital Notes is done under conditions that are sustainable for IAG's income capacity; or
- APRA is satisfied that having regard to the capital position of the Group, IAG does not have to replace the Capital Notes the subject of the Redemption.

IAG is not permitted to elect to Redeem or Resell Capital Notes on account of an Acquisition Event or a Potential Acquisition Event.

#### **5.1.11 Conversion into Ordinary Shares**

There is a risk that the Capital Notes will Convert into Ordinary Shares which may be disadvantageous in light of market conditions or not suit individual circumstances and preferences. The only conditions to Conversion are, in the case of Mandatory Conversion, the Mandatory Conversion Conditions and, in the case of an Exchange at IAG's option or following an Acquisition Event, the conditions expressly applicable to such Conversion under clauses 4, 5 and 7 of the Capital Notes Terms. No other conditions will affect the Conversion except as expressly provided by the Capital Notes Terms.

Although one condition to Conversion is that a Delisting Event does not apply (other than in connection with a Conversion on account of a Non-Viability Trigger Event, which is not subject to conditions), other events and conditions may affect the ability of Capital Note Holders to trade or dispose of the Ordinary Shares issued on Conversion e.g. the willingness or ability of ASX to accept the Ordinary Shares issued on Conversion for quotation or any practical issues which affect that quotation, whether ASX has suspended trading in Ordinary Shares, any disruption to the market for the Ordinary Shares or to capital markets generally, the availability of purchasers for Ordinary

Shares and any costs or practicalities associated with trading or disposing of Ordinary Shares at that time. Further, as outlined in Section 5.1.8, Conversion following a Non-Viability Trigger Event is not subject to any conditions.

#### **5.1.12 Restrictions on rights and ranking in a winding-up of IAG**

There is a risk that if IAG is wound-up a Capital Note holder may not receive a return of their investment. Capital Notes are issued by IAG under the Capital Notes Terms. A Capital Note Holder has no claim on IAG in respect of Capital Notes except as provided in the Capital Notes Terms and has no claim on any other member of the Group. Capital Notes are not policy liabilities of any member of the Group or protected policies under the Insurance Act and are not guaranteed or insured by any government, government agency or compensation scheme. Capital Notes are unsecured.

Claims in respect of Capital Notes are subordinated in, and notwithstanding, a winding-up of IAG, so as to rank senior to Ordinary Shares as set out in the Capital Notes Terms. Capital Notes are also subordinated to most other creditors of IAG.

In the event of a winding-up of IAG, and assuming Capital Notes have not been Exchanged and are not required to be Converted or Written-Off due to a Non-Viability Trigger Event, Capital Note Holders shall be entitled to prove for the Redemption Price in respect of a Capital Note (being an amount equal to the Issue Price of the Capital Note) only subject to, and contingent upon, the prior payment in full of the Senior Ranking Creditors. The Capital Note Holders' claim for payment of the Redemption Price ranks ahead of the claims of Shareholders, equally with, and shall be paid in proportion to, the claims of holders of Equal Ranking Instruments, but behind all Senior Ranking Creditors.

If, following a Non-Viability Trigger Event, Capital Notes are Converted into Ordinary Shares, Capital Note Holders will have claims as Ordinary Shareholders. If, following a Non-Viability Trigger Event,

Capital Notes are Written-Off, those Capital Notes will never be Converted or Exchanged, all rights in relation to those Capital Notes will be terminated and Capital Note Holders will not have their capital repaid.

If there is a shortfall of funds on a winding-up of IAG to pay all amounts ranking senior to and equally with Capital Notes, there is a significant risk that Capital Note Holders will not receive all (or any part of) an amount equal to the Redemption Price in a winding-up of IAG. Although Capital Notes may pay a higher rate of distribution than that on comparable securities and instruments which are not subordinated, there is a significant risk that Capital Note Holders will lose all or some of their investment should IAG become insolvent.

IAG is a non-operating holding company and substantially all its assets are made up of shares in, or other claims on, IAG's subsidiaries. Accordingly, the claims of Capital Note Holders against IAG will be limited to the value of IAG's residual claims to the net assets (if any) of the subsidiaries, after all liabilities, including to policyholders, have been discharged or provided for.

#### **5.1.13 Future issues or redemptions of securities by IAG**

There is a risk that IAG may issue other securities that may affect the return that a Capital Note Holder receives on their investment. Capital Notes do not in any way restrict IAG from issuing further securities or from incurring further indebtedness. IAG's obligations under Capital Notes rank subordinate and junior in a winding-up to IAG's obligations to holders of senior ranking securities and instruments, and all Senior Ranking Creditors, including subordinated creditors (other than creditors whose claims are subordinated to rank equally with or behind Capital Notes). Accordingly, IAG's obligations under Capital Notes will not be satisfied unless it can satisfy in full all of its obligations ranking senior to Capital Notes.

The Capital Notes Terms do not restrict IAG from issuing securities of any kind. IAG may in the future issue securities that:

- rank for dividends, distributions or return of capital (including on the winding-up of IAG) equally with, behind or ahead of Capital Notes;
- have the same or different dividend, interest or distribution rates as those for Capital Notes;
- have payment conditions and distribution restrictions or other covenants which affect Capital Notes (including by restricting circumstances in which Distributions can be paid or Capital Notes can be Redeemed); or
- have the same or different terms and conditions as Capital Notes.

IAG may incur further indebtedness and may issue further securities including further Tier 1 Capital securities before, during or after the issue of Capital Notes.

An investment in Capital Notes carries no right to participate in any future issue of securities (whether equity, Tier 1 Capital, subordinated or senior debt or otherwise) by IAG.

No prediction can be made as to the effect, if any, which the future issue of securities by IAG may have on the market price or liquidity of Capital Notes or of the likelihood of IAG making payments on Capital Notes.

Similarly, Capital Notes do not restrict IAG from redeeming or otherwise repaying its other securities it may have on issue from time to time, including other securities which rank equally with or junior to Capital Notes (other than to the extent the Distribution Restriction applies).

An investment in Capital Notes carries no right to be redeemed or otherwise repaid at the same time as IAG redeems or otherwise repays other securities (whether equity, Tier 1 Capital, subordinated or senior debt or otherwise).

No prediction can be made as to the effect, if any, which the future redemption or repayment by IAG of existing securities may have on the market price or liquidity of Capital Notes or on IAG's financial position or performance.

#### **5.1.14 Exposure to the Group's financial performance and position**

There is a risk that if the Group's financial performance or position declines, or if market participants anticipate that it may decline, an investment in Capital Notes could decline in value even if Capital Notes have not been Converted. Accordingly, when you evaluate whether to invest in Capital Notes, you should carefully evaluate the investment risks associated with an investment in IAG (see Section 5.2).

#### **5.1.15 Distributions may not be fully franked**

There is a risk that Distributions may not be fully franked. IAG expects Distributions to be fully franked. However, there is no guarantee that IAG will have sufficient franking credits in the future to fully frank Distributions.

If any Distribution payment is not fully franked, then the amount of the cash Distribution will be increased to compensate for the unfranked component. This payment is subject to no Payment Condition existing in connection with the relevant Distribution Payment Date.

The value and availability of franking credits to a Capital Note Holder will differ depending on the Capital Note Holder's particular tax circumstances. Capital Note Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Distribution. Capital Note Holders should also be aware that the ability to use the franking credits, either as an offset to a tax liability or by claiming a refund after the end of the income year, will depend on the tax position of each Capital Note Holder. Capital Note Holders should also refer to the Australian taxation summary in Section 8 and seek professional advice in relation to their tax position.

IAG has no obligations to gross-up or otherwise compensate Capital Note Holders for any other tax, including a FATCA Withholding.

#### **5.1.16 Distributions on Capital Notes may be restricted by the terms of other similar securities**

There is a risk that the terms of IAG's other outstanding and future securities could limit the Group's ability to make payments on Capital Notes. If IAG does not make payments on other securities, payments may not be permitted to be made in respect of Capital Notes.

The dividend or distribution payment dates on IAG's other securities may differ from the Distribution Payment Dates for Capital Notes. Further, the payment tests applying to other securities (whether currently outstanding or issued in the future) may be different to the Distribution Payment Tests. Accordingly, IAG may not be permitted to make a payment on another security in circumstances where it would otherwise be permitted to make a payment on Capital Notes. In these circumstances, the distribution restrictions on the other securities may then apply, preventing IAG from making a payment on Capital Notes. Similarly, IAG may not be permitted to make a payment on Capital Notes in circumstances where the payment tests on other securities have been passed.

If distribution restrictions for another security apply to payments on Capital Notes, IAG may not be able to pay Distributions when scheduled to do so under the Capital Notes Terms and may not be able to Redeem Capital Notes. IAG is not restricted from issuing other securities of this kind or agreeing in the terms of issue of other securities to additional or different payment tests or distribution restrictions (see Section 2.1).

### 5.1.17 The Distribution Restriction is limited

There is a risk that payments can be made on other instruments ranking equally with the Capital Notes, or in some cases Ordinary Shares, when payments on the Capital Notes have not been made.

The Distribution Restriction may be less extensive than the corresponding distribution restriction in IAG's other securities. It applies only to restrict distributions in respect of Ordinary Shares and not to distributions in respect of securities ranking equally with or junior to Capital Notes (other than Ordinary Shares). Accordingly, a failure to make a scheduled payment on Capital Notes may not restrict the making of payments in respect of instruments ranking equally with Capital Notes (including, for so long as they are on issue, the CPS and RES). Further, the restriction in Capital Notes only applies until the next Distribution Payment Date. The dates for distribution with respect to Ordinary Shares are determined by IAG in its discretion and do not bear a fixed relationship to the quarterly Distribution Payment Dates for Capital Notes. Accordingly, as soon as the Distribution Restriction ceases to apply (as will be the case if the next scheduled Distribution on Capital Notes is paid), IAG will not be restricted from making a distribution on its Ordinary Shares.

### 5.1.18 Regulatory classification and prudential supervision

There is a risk that the position of Capital Note Holders may be adversely affected due to the Capital Notes being eligible as regulatory capital. The Capital Notes are eligible for inclusion as Additional Tier 1 Capital which qualifies as regulatory capital of the Group for APRA purposes. As a result the terms contain features which may have adverse consequences for Holders. For example, IAG is required to Convert the Capital Notes on the occurrence of a Non-Viability Trigger Event, the ability of IAG to pay Distributions is subject to APRA not objecting to the payment, and the Exchange of the Capital Notes at IAG's option is subject to APRA approval.

However, if APRA subsequently determines that some or all Capital Notes do not qualify as Additional Tier 1 Capital, IAG may decide that a Regulatory Event has occurred. IAG may then elect, at its option to Exchange all or some Capital Notes on issue (subject to APRA's prior written approval; Capital Note Holders should not assume that APRA's approval will be given if requested). A Regulatory Event will not have occurred if the change in regulatory treatment was expected by IAG at the Issue Date.

Any such Exchange at IAG's option may occur on dates not previously contemplated by Capital Note Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Capital Note Holders will be entitled to the benefit of the rights attaching to Capital Notes (such as Distributions) is unknown.

APRA's powers with respect to IAG also include the ability for APRA to direct IAG not to pay Distributions.

For further information on the investment risks arising from IAG being subject to prudential supervision, see Section 5.2.10.

### 5.1.19 Australian tax consequences

There is a risk that the position of Capital Note Holders may be adversely affected if a change is made in Australian tax law, or an administrative pronouncement or ruling. A general outline of the tax consequences of investing in Capital Notes for certain potential investors who are Australian residents for tax purposes is set out in the Australian taxation summary in Section 8. This discussion is in general terms and is not intended to provide specific advice addressing the circumstances of any particular potential investor.

Accordingly, potential investors should seek independent advice concerning their own tax position.

If a change is made in Australian tax law, or an administrative pronouncement or ruling, and that change leads to a more than insubstantial risk that:

- IAG would be exposed to more than a de minimis increase in costs in relation to Capital Notes;
- any Distribution in respect of Capital Notes would not be a frankable distribution or would give rise to an additional franking debit; or
- Australian tax resident Capital Note Holders generally would not be entitled to franking credits in respect of Distributions,

IAG may be entitled to Exchange all or some Capital Notes (subject to APRA's prior written approval where required; Capital Note Holders should not assume that APRA's approval will be given if requested) – see Section 2.3.

If the corporate tax rate was to change, the cash amount of Distributions and the amount of any franking credit would change.

In this regard, as part of the 2016–17 Federal Budget the Coalition Government proposed a staggered reduction of the corporate tax rate to 25% by the 2026–27 income year, with the reduction to take effect on dates dependent on the amount of annual aggregated turnover of the relevant company. In the case of IAG, the initial reduction from 30% to 27.5% would not be expected to take effect until the 2023–24 income year. IAG has applied for a Class Ruling from the Commissioner of Taxation for confirmation of certain Australian tax consequences for Capital Note Holders as discussed in the Australian taxation summary in Section 8. The issue of the Class Ruling applicable to Capital Note Holders is expected after the close of the Offer.

### 5.1.20 Accounting standards

There is a risk that a change in accounting standards by either the International Accounting Standards Board or Australian Accounting Standards Board may affect the reported earnings and financial position of IAG in future financial periods. This may adversely affect the ability of IAG to pay Distributions.

### 5.1.21 Shareholding limits

There is a risk that a Capital Note Holder may, by acquiring any Capital Notes (taking into account any Ordinary Shares into which they may Convert), breach applicable restrictions on ownership. Laws including the Financial Sector (Shareholdings) Act 1998 (Cth) may restrict ownership by people (together with their associates) of general insurer holding companies, such as IAG, to a 15% stake. A shareholder may apply to the Australian Treasurer to extend their ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% is in the national interest.

Mergers, acquisitions and divestments of Australian public companies listed on ASX (such as IAG) are regulated by detailed and comprehensive legislation and the rules and regulations of ASX. These provisions include restrictions on the acquisition and sale of relevant interests in certain shares in an Australian listed company under the Corporations Act and a requirement that acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer. In addition, Australian law also regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market.

### 5.1.22 Amendment of Capital Notes Terms and Trust Deed

There is a risk that either or both the Capital Notes Terms and the Trust Deed may be amended in a way that the Capital Note Holder does not agree with. IAG may with APRA's prior written approval in certain circumstances amend the Capital Notes Terms or the Trust Deed without the approval of Capital Note Holders or the Trustee. These include necessary or desirable amendments to dates and time periods to facilitate any Mandatory Conversion, Non-Viability Conversion or Exchange or any change which IAG considers not likely to be materially prejudicial to the interests of Capital Note Holders as a whole. IAG may also, with APRA's prior written approval, amend the Capital Notes Terms if the amendment has been approved by a Special Resolution. Amendments under these powers are binding on all Capital Note Holders despite the fact that a Capital Note Holder may not agree with the amendment.

### 5.1.23 No rights to vote

There is a risk that Capital Note Holders may be affected by corporate decisions made by IAG. Capital Note Holders have no voting or other rights in relation to Ordinary Shares until Ordinary Shares are issued to them. In addition, the Capital Notes do not confer on Capital Note Holders any right to subscribe for new securities in IAG or to participate in any bonus issue of securities. The rights attaching to Ordinary Shares if Ordinary Shares are issued will be the rights attaching to Ordinary Shares at that time. Capital Note Holders have no right to vote on or otherwise to approve any changes to the Constitution in relation to the Ordinary Shares that may in the future be issued to them. Therefore, Capital Note Holders will not be able to influence decisions that may have adverse consequences for them.

## 5.2 RISKS ASSOCIATED WITH IAG, THE GROUP AND THE GENERAL INSURANCE INDUSTRY

Set out below are business risks associated with IAG, the Group and the general insurance industry. These are relevant to an investment in the Capital Notes as the value of your investment will depend on the financial performance and position of IAG and the Group. The Group has mechanisms in place whereby it can avoid or reduce some of these risks but the risks (and their impact) may change, or new risks may emerge, over the lifetime of the Capital Notes that are not adequately mitigated by IAG or the Group.

### 5.2.1 Catastrophes and latent exposures

There is a risk that the Group's financial performance and position is impacted by catastrophes and latent risks. As a general insurer, the Group is subject to the risk of large-scale claims arising out of catastrophic events. Catastrophes may include cyclones, earthquakes, tsunamis, wind, hail, floods, fire or volcanic activity, which are inherently unpredictable with regard to incidence and severity. Claims arising out of catastrophes can be substantial, and can adversely affect the Group's financial performance and position either short or longer term. Reinsurance is used extensively by the Group to mitigate these short term financial impacts, i.e. due to cash outflows for potential claims arising from catastrophes.

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



### 5.2.2 Reinsurance

There is a risk that the Group's current reinsurance coverage is not adequate, that it does not match the underlying risks assumed, that it may not be available at adequate premium rates or levels in the future or that increases in reinsurance costs will not be recovered through premium rates.

The Group's reinsurance contracts typically renew on an annual basis although the Group also has a number of multi-year reinsurance arrangements, including the quota share arrangements with Berkshire Hathaway and Munich Re described in Section 4.3.1. There may be adverse consequences for the Group, including an increase in insurance risk (which increases the amount of capital the Group is required to hold), if existing contracts are not replaced on expiry, or there is otherwise inadequate reinsurance cover available in the future. In addition, reinsurance contracts are generally subject to change in control clauses which means there may be adverse consequences for the Group (such as termination) if the ownership of IAG changes during the term of the relevant reinsurance contract.

The limit of catastrophe cover purchased by the Group as at 1 January 2016 was \$7 billion, of which 80% is provided through the reinsurance market and the remaining 20% is effectively provided under the quota share arrangement with Berkshire Hathaway. The Group's retention level for each event as at 1 January 2016 was \$200 million (after taking into account the cover provided through the quota share reinsurance arrangement with Berkshire Hathaway). For New Zealand, all amounts itemised above in respect of the Group's catastrophe programme are denominated in NZ\$. For example, the limit of catastrophe cover is in respect of losses up to NZ\$7 billion. If the extent of insurance loss exceeds the upper limit of reinsurance cover, then the amount in excess of the limit plus the amount of the event retention would need to be met by the Group.

The Group is exposed to the counterparty credit risk that its reinsurers may default on their obligation to pay claims. In addition, it may take a long time for the

Group to collect reinsurance monies that are owed to it, and reinsurers may dispute their liability to pay, even if the Group has a valid claim. Despite reinsurance, the Group is primarily liable to policyholders, and so a failure by a reinsurer to make payment for any reason can adversely affect the Group's financial performance and position.

A detailed description of the Group's reinsurance arrangements can be found in Section 4.3.

### 5.2.3 Competition

There is a risk that competition could increase pressure on the Group's ability to maintain its market share and/or preserve its insurance margins. The Group's position as a leading general insurer in Australia and New Zealand is an important factor in it being able to achieve strong and sustainable insurance margins. However, as a consequence of competition from existing and new competitors, the Group could lose market share or be forced to reduce prices in order to compete effectively. This may occur for example, if industry participants engage in aggressive growth strategies or severe pricing discounting.

### 5.2.4 Investment performance

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

IAG invests in a range of different funds and markets and so is exposed to risk and volatility in those markets generally, and in the securities and other assets in which it invests. Those risks include, but are not limited to:

- counterparty default;
- fluctuations in market prices, interest rates and exchange rates; and
- investment instruments becoming illiquid.

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

### 5.2.5 Market position

There is a risk of deterioration in business performance in the Group's core markets. The Group primarily operates in Australia, New Zealand and Asia, which respectively accounted for 77%, 19% and 4% of the Group's reported GWP for the financial year ended 30 June 2016. The Group's performance is largely dependent on the financial performance of the insurance sector in these countries.

### 5.2.6 Global market and economic environment

There is a risk that the financial performance of the Group is significantly affected by changes in investment markets and economic conditions both globally and in Australia, New Zealand and Asia where the Group conducts business. Such changes may also influence the operating margins of the Group and its businesses and the demand for the Group's financial products and services, including the Group's capital position.

### 5.2.7 Uncertainty of future liabilities

There is a risk that future unpaid claims exceed the Group's estimates which may adversely affect the Group's financial performance and position. The Group has a liability for future benefits payable to policyholders and for unpaid claims in its general insurance business. The assessment of these future policy liabilities depends on estimates of expected future revenue and expenses. These estimates are based on actuarial and statistical projections made on the basis of the facts and circumstances known at a given time, estimates of likely future trends, and assumptions about future investment returns, expenses and inflation rates. Although the Group maintains assets in excess of estimated future policy liabilities based on best estimate assumptions, actual results and conditions may be different from those assumed, due to deterioration in persistency or claims, natural disasters or worsening general economic conditions.

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

### **5.2.8 Adverse foreign exchange rate movements**

There is a risk of the Group sustaining losses through adverse movements in foreign exchange rates. Such movements can impact the Group's financial position and performance and the level of capital supporting the Group's businesses. From an operational perspective, the Group faces exposure to foreign exchange risks through direct foreign income and expenses, the settlement of foreign currency denominated assets and liabilities and the translation of the net investment and earnings of certain subsidiaries. Foreign exchange losses can also impact the Group's investment portfolios, which in turn can affect the Group's reputation, asset values, financial performance and position.

### **5.2.9 Structural subordination**

There is a risk that IAG's subsidiaries or joint ventures (together, referred to in this Section 5.2.9 "subsidiaries") may not be in a position to make funds available to IAG to make payments on the Capital Notes and there is a risk that if IAG or its subsidiaries are wound-up and Capital Note Holders may not receive a return on their investment. IAG is a holding company which owns or holds interests in a group of insurance companies in Australia, New Zealand and Asia. In the event a subsidiary is wound up, the claims of IAG would be limited to the net assets (if any) of that subsidiary after all prior ranking liabilities, including to policyholders, have been discharged or provided for.

In addition, IAG is reliant on the continued receipt of dividends or other funding from its subsidiaries to make payments on its securities, including the Capital

Notes. The ability of IAG's subsidiaries to pay dividends or to otherwise make funds available to IAG may in certain circumstances be subject to regulatory, contractual or legal restrictions in addition to its economic performance.

### **5.2.10 Prudential regulation**

There is a risk that the position of Capital Note Holders may be adversely affected due to IAG being subject to prudential regulation. As a prudentially regulated authorised non-operating holding company, IAG is subject to the requirements of, among other things, the Insurance Act and the Prudential Standards. The Insurance Act includes certain powers that APRA may exercise in a manner that may be adverse to the interests of Capital Note Holders, including powers to direct IAG not to pay or transfer any amount to any person (including in respect of any Capital Notes) or not to issue Ordinary Shares in connection with a Conversion of Capital Notes or not to pay a dividend in respect of any Ordinary Shares. The Prudential Standards may also restrict the payment of dividends or other distributions in respect of Ordinary Shares in particular circumstances.

In addition, Part 4 of the Financial Sector (Business Transfer and Group Restructure) Act 1999 (Cth) authorises APRA to order the compulsory transfer of business of a general insurer to another entity, including to an entity not controlled by IAG in particular circumstances. This could include a compulsory transfer of business from one of IAG's subsidiaries which conduct substantially all of the insurance and other business of the Group.

Broadly, APRA may make a determination to transfer the business of a general insurer where (i) the general insurer has contravened the Insurance Act, any regulations or other instruments made under that Act or conditions imposed under that Act; (ii) APRA has chosen to investigate the general insurer; or (iii) a judicial manager recommends the transfer, and in each case where APRA considers the transfer appropriate having considered the interests of the policyholders of the

transferring and transferee entity. Any such determination may have a negative impact on IAG, its subsidiaries or the Group as a whole. Similar laws may exist in other jurisdictions in which the Group carries on business.

As a result of the exercise of the regulatory powers described above, Capital Note Holders may suffer loss or face increased or different risks in holding the Capital Notes.

### **5.2.11 Changes in government policy, regulation or legislation**

There is a risk that changes in government policy, regulation or legislation could have an adverse effect on the financial performance and position of the Group. The general insurance industry is subject to extensive legislation, regulation and supervision by regulators (e.g. in Australia, ASIC, APRA and State based regulators). Any future legislation and regulatory change in any jurisdiction where the Group carries on business may affect the insurance and finance sectors and adversely affect the Group. This could include changing the required levels of capital adequacy and/or changes to accounting standards, taxation laws and prudential regulatory requirements, and may affect the likelihood of a Non-Viability Trigger Event occurring.

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

### 5.2.12 Mergers, acquisitions and divestments

There is a risk the Group fails to adequately manage the risks associated with any mergers, acquisitions or divestments which could have a material adverse effect on its financial performance or position. The Group regularly examines its portfolio of businesses and a range of corporate and other opportunities with a view to pursuing merger, acquisition or divestment activities which are designed to improve its strategic and/or market position and performance over the medium to long term. Any merger, acquisition or divestment activities which are pursued could, for a variety of reasons, have a material impact on the financial performance and position of the Group including diversion of management resources, dilution of focused effort or loss on divestment.

Any acquisitions may require assimilation of new operations and new personnel and may cause dilution of the Group's management resources. Changes in ownership and management may result in impairment of relationships with employees and customers of the acquired businesses. Depending on the type of transaction, it could take a substantial period of time for the Group to realise the financial benefits of the transaction, if any. During the period immediately following this type of transaction, the Group's operating results may be adversely affected.

As a potential target in any future merger or acquisition activity, potentially resulting in a change of control transaction, the issues identified above may also be relevant to the Group. In particular, some of the commercial contracts, joint ventures, partnerships or alliances to which IAG or its subsidiaries are a party, contain change of control clauses which may enable one or more parties to those contracts to terminate or vary the terms of the contracts upon a change of control. For a discussion of the consequences of an Acquisition Event on the Capital Notes, see Section 5.1.9.

Where the Group decides to divest a business or asset, this may involve a loss against book value, particularly of any goodwill or intangible assets.

### 5.2.13 Litigation and regulatory proceedings

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

### 5.2.14 Change in IAG's credit rating

There is a risk that a downgrade or potential downgrade to the Group's credit rating may reduce access to capital and wholesale debt markets, leading to an increase in funding costs, as well as affecting the willingness of counterparties to transact with it.

The Group's credit ratings have an impact on both its access to, and cost of, capital and wholesale funding. Credit ratings may be withdrawn, qualified, revised or suspended by credit rating agencies at any time. The methodologies by which they are determined may also be revised in response to legal or regulatory changes or market developments or for any other reason. The Group's credit rating may also be affected by a change in IAG's risk appetite.

In addition, the ratings of individual securities (including, but not limited to, certain Tier 1 Capital and Tier 2 Capital securities) issued by the Group (and other financial institutions globally) could be

impacted from time to time by changes in the ratings methodologies used by rating agencies.

Credit ratings are not a recommendation by the relevant rating agency to invest in securities offered by the Group.

### 5.2.15 Operational factors

There are operational risks that the Group is exposed to which may result in significant losses, increased costs and reputational damage. These risks include: financial crime, fraud and other dishonest activities; poor management or underwriting practices; workplace accidents; costs arising from project and change management; compliance costs arising from failure or inability to comply with the applicable laws and regulations; business continuity and crisis management; key person risk; the failure of information and other systems; and outsourcing risks including risk associated with the Group's distribution strategy.

### 5.2.16 Information security, including cyber attacks and data security breaches

There is a risk that IAG will incur losses from cyber attacks or other information security breaches.

IAG uses new technologies, internet and telecommunications in its day-to-day operations and the growing sophistication and activities of organised crime have resulted in increased information security risks for financial institutions including IAG.

Whilst IAG has information technology security systems in place to detect cyber attacks and implement measures to protect security, integrity and confidentiality of its information, these systems and measures may not be successful in all circumstances.

### 5.2.17 Conduct risk

There are risks arising from unfair or inappropriate behaviour or practices of the Group, its strategic business partners or its staff. IAG is highly dependent on the conduct of its employees, contractors and external service providers. IAG could, for example, be adversely affected in the event that an employee, contractor or external service provider engages in unfair or inappropriate conduct. This could include losses from a failure to meet a professional obligation to specific customers, including fiduciary and suitability requirements, or from the nature or design of a product. While IAG has policies and processes to manage employee, contractor or external service provider misconduct, these policies and processes may not always be effective.

### 5.2.18 Reputational risk

There are risks which may cause harm to the reputation of IAG or Group members among customers, investors and others, including those relating to legal and regulatory requirements, sales, claims handling, investment and advisory practices, potential conflicts of interest, money laundering laws, foreign exchange controls, trade sanctions laws, privacy laws, ethical issues and conduct by companies in which IAG holds strategic investments.

In addition, failure to appropriately manage some of these risks could subject IAG to litigation, legal and regulatory enforcement actions, fines and penalties. Negative media coverage could also adversely affect the Group's financial performance.

### 5.2.19 Strategic risk

There is a strategic risk associated with the competitive positioning of the business, and IAG's ability to respond in a timely manner to changes in its competitive landscape and protect the value of its brands. Examples of strategic risks include new and existing competitors, a change in distribution or business models, digital disruption, new technologies and changing customer preferences.

Customer preferences continue to change rapidly in the financial services environment, driven in particular by advances in technology and competitive dynamics. The failure of the Group to adapt its capabilities and operating model in order to remain relevant to customers, within a rapidly changing environment, may impact new business and retention of existing business, resulting in lower than anticipated revenues and profits.

### 5.2.20 Failure of Risk Management Strategy

There is a risk that the Group's risk management framework does not identify risks that may exist, or develop in the future, which the Group has not anticipated or identified. In addition there is a risk that IAG risk controls may not operate effectively.

IAG has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and mitigate the risks to which it is subject, including strategic, insurance, reinsurance, financial and operational risks.

If any of the Group's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, the Group could suffer unexpected losses and reputational damage which could adversely affect the Group's businesses, financial performance and position, capital resources, financial condition and prospects.

### 5.2.21 Transformation and change programs across the Group may not deliver some or all of their anticipated benefits

There is a risk that implementation of transformation and change programs across the Group may not realise some or all of the anticipated benefits which may adversely impact the Group's reputation and financial performance and position.

IAG has invested significantly in simplification initiatives across the Group. The Group also continues to pursue business process improvement initiatives and invest in technology in order to achieve its strategic objectives, meet ongoing customer expectations and respond to competitive pressures.

As these changes are being undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are increased.

# ABOUT THE REINVESTMENT OFFER.

This section provides information on how Eligible CPS Holders can apply to reinvest their CPS in Capital Notes.

## 6.1 OVERVIEW

### 6.1.1 What are CPS?

CPS are convertible preference shares issued by IAG in 2012 that trade on ASX under code "IAGPC".

### 6.1.2 What is the Reinvestment Offer?

Under the Reinvestment Offer, Eligible CPS Holders may apply for some or all of the CPS registered in their name at 7:00pm on 18 November 2016 to be bought back early for \$100 each on 22 December 2016 and have the buy-back proceeds (i.e. \$100 per CPS) applied to the Application Payment for Capital Notes.

That means if you are an Eligible CPS Holder, you will not be required to make a separate Application Payment if you apply under the Reinvestment Offer.

If your Application under the Reinvestment Offer is successful, in addition to receiving Capital Notes you will also receive the Pro Rata Dividend for your Reinvested CPS, subject to the payment tests in the CPS Terms (including that the Board resolves to pay the dividend), but this will not form part of the buy-back proceeds.

Once you have submitted an Application to reinvest your CPS, a holding lock will be placed on those CPS. You will not be able to deal with those CPS until they are released from the holding lock. The holding lock will be released:

- on any CPS not successfully reinvested into Capital Notes as soon as practicable after the Issue Date; or
- as soon as practicable if IAG decides not to proceed with the Offer.

The buy-back agreement for the CPS will be formed immediately after payment of any Pro Rata Dividend. Completion of the buy-back of CPS will take place on the Issue Date. IAG and its officers are authorised under the CPS Terms to take any necessary steps and to sign documents on behalf of Eligible CPS Holders to complete the buy-back of CPS.

### 6.1.3 What is the purpose of the Reinvestment Offer?

The Reinvestment Offer will enable IAG to refinance CPS as well as offer Eligible CPS Holders the opportunity to reinvest their CPS in Capital Notes.



#### **6.1.4 Am I eligible to participate in the Reinvestment Offer?**

To participate in the Reinvestment Offer, you must have been a registered holder of CPS at 7:00pm on 18 November 2016 and shown on the CPS register as having an address in Australia, and must not be in the United States or acting as a nominee for a person in the United States.

#### **6.1.5 How do I apply to participate in the Reinvestment Offer?**

See Section 7.2 for details on how to apply to participate in the Reinvestment Offer.

#### **6.1.6 If I apply to participate in the Reinvestment Offer, what dividends will I receive on CPS?**

If you are an Eligible CPS Holder and your Application under the Reinvestment Offer is successful, you will receive a Pro Rata Dividend on your Reinvested CPS, subject to the payment tests in the CPS Terms (including that the Board resolves to pay the dividend). This is because dividends will continue to accrue on your Reinvested CPS until they are bought back.

The Pro Rata Dividend will be paid on the Reinvested CPS Buy-Back Date, which is expected to be 22 December 2016, for the period from (and including) 1 November 2016 to (but excluding) the Reinvested CPS Buy-Back Date. The Pro Rata Dividend is expected to be \$0.5849 per Reinvested CPS and is expected to be fully franked.

You will not receive a Pro Rata Dividend on any CPS that are not reinvested in Capital Notes. A franked dividend of \$2.0758 per CPS is scheduled to be paid on 1 May 2017, in accordance with the CPS Terms and subject to the payment tests in the CPS Terms (including that the Board resolves to pay the dividend).

#### **6.1.7 Can I elect to reinvest the Pro Rata Dividend in Capital Notes?**

No. The Pro Rata Dividend will be paid to Eligible CPS Holders in respect of their Reinvested CPS via direct credit or cheque on the Reinvested CPS Buy-Back Date, in accordance with your existing CPS payment instructions.

#### **6.1.8 Do I need to apply for a minimum number of Capital Notes?**

There is no minimum number of CPS that you must hold to be able to participate in the Reinvestment Offer.

However, if you are an Eligible CPS Holder and held 50 CPS or fewer at 7:00pm on 18 November 2016, you must apply to reinvest all your CPS in Capital Notes if you wish to participate in the Reinvestment Offer.

If you are an Eligible CPS Holder and held more than 50 CPS at 7:00pm on 18 November 2016, you may apply:

- to reinvest all your CPS in Capital Notes; or
- for a minimum number of 50 Capital Notes (\$5,000).

#### **6.1.9 What happens if I have sold or purchased CPS since 7:00pm on 18 November 2016?**

If you have sold any CPS you held at 7:00pm on 18 November 2016, you cannot apply to have those CPS reinvested in Capital Notes.

Additionally, if you have purchased any CPS since 7:00pm on 18 November 2016, you cannot apply to have those CPS reinvested in Capital Notes.

#### **6.1.10 Can I sell my CPS after I have completed and returned my Application Form?**

No. If you apply to have your CPS reinvested in Capital Notes, it is your responsibility to ensure that you do not sell or dispose of any of those CPS that you wish to reinvest, other than as part of the Reinvestment Offer. If you do sell or dispose of any of those CPS before the Closing Date for the Reinvestment Offer, the maximum number of Capital Notes that you may be allocated will be the number of CPS registered in your name on the Closing Date for the Reinvestment Offer. By submitting an Application to reinvest your CPS, you will indemnify IAG for all costs or losses it incurs as a result of you selling or disposing of the CPS the subject of your Application.

An Application to participate in the Reinvestment Offer is irrevocable once submitted but will only be effective so long as the Offer proceeds.

#### **6.1.11 What are the tax implications of having my CPS bought back and will any brokerage or stamp duty be payable?**

A general outline of the taxation implications for certain investors who are Australian residents for tax purposes participating in the Offer can be found in the Australian taxation summary in Section 8.

No brokerage or stamp duty is payable on the buy-back of your CPS or on your Application for Capital Notes.

#### **6.1.12 What will happen to my CPS if I do not apply for them to be reinvested under the Reinvestment Offer or the Reinvestment Offer does not proceed?**

Your CPS will remain on issue in accordance with their terms. Under the CPS Terms, IAG may elect to exchange the CPS on 1 May 2017. IAG will consider buying back the outstanding CPS on that date, subject to a number of factors including satisfactory completion of the Offer and market conditions closer to 1 May 2017. No decision to exchange the CPS on 1 May 2017 has yet been made.

#### **6.1.13 Can I continue to sell my CPS on market?**

Yes. You may choose to sell your CPS on market through your broker at the prevailing market price. To do this, you should contact your broker before the last trading day for CPS.

If you elect to sell your CPS on market, you:

- may have to pay brokerage and may receive a price greater or less than the Issue Price of \$100 per CPS; and
- have the option to use the sale proceeds of the CPS you sell to subscribe for Capital Notes.

## 6.2 WHAT ARE THE KEY DIFFERENCES BETWEEN CPS AND CAPITAL NOTES?

A comparison of the key features of Capital Notes and CPS is set out in summary form below, with key differences highlighted.

These comparisons are not intended to be exhaustive.

Feature	Capital Notes	CPS
<b>Issue date</b>	22 December 2016	1 May 2012
<b>Legal form</b>	Unsecured subordinated note	Preference share
<b>Issuer</b>	IAG	IAG
<b>ASX code</b>	Expected to trade under "IAGPD"	IAGPC
<b>Issue price</b>	\$100 per Capital Note	\$100 per CPS
<b>Amount to be issued/currently on issue</b>	\$300 million with the ability to raise more or less	\$377 million
<b>Margin</b>	Expected to be in the range of 4.70 – 4.90% as determined under the Bookbuild	4.00%
<b>Distribution rate</b>	Floating	Floating
<b>Distribution payment dates</b>	Quarterly	Semi-annual
<b>Rights if distribution is not fully franked</b>	Franked, subject to gross-up for any non-franked portion	Franked, subject to gross-up for any non-franked portion
<b>Distribution payment conditions</b>	Yes, subject to IAG's absolute discretion and certain payment conditions	Yes, subject to IAG directors' absolute discretion and certain payment conditions
<b>Dividend restrictions if distributions are not paid</b>	IAG must, unless approved by Special Resolution, not declare or determine to pay or pay a dividend or distribution on Ordinary Shares or buy-back or reduce the capital on Ordinary Shares until and including the next quarterly Distribution Payment Date, unless the distribution on the Capital Notes is paid in full within three Business Days	IAG must, unless approved by Special Resolution, not resolve to pay or pay a dividend or distribution on Ordinary Shares or buy-back or reduce the capital on Ordinary Shares until and including the next semi-annual dividend payment date, unless the dividend is paid in full within three Business Days
<b>Mandatory conversion</b>	Yes	Yes
<b>Mandatory conversion date</b>	16 June 2025, or the first Distribution Payment Date after that on which the Mandatory Conversion Conditions are satisfied	1 May 2019, or the first dividend payment date after that on which the mandatory conversion conditions are satisfied
<b>Conversion discount</b>	1.00%	1.00%
<b>Non-viability trigger event</b>	Yes. As a result, all (or in some cases, some) of the Capital Notes must be Converted and, if not Converted within five Business Days, those Capital Notes must be Written-Off, in which case the Capital Note Holders' rights in respect of the relevant Capital Notes are terminated	Yes. As a result, all (or in some cases, some) of the CPS must be converted into a number of Ordinary Shares and, if not converted within five business days, those CPS must be written-down, in which case the rights of CPS holders in respect of the CPS become broadly equivalent to the rights they would have had if the CPS had been converted into the relevant number of Ordinary Shares

Feature	Capital Notes	CPS
<b>Exchange</b>	<p>IAG may elect (with APRA's prior written approval) to:</p> <ul style="list-style-type: none"> <li>Exchange all or some Capital Notes on the Optional Exchange Date, or following a Tax Event or Regulatory Event; or</li> <li>Convert all (but not some only) Capital Notes following a Potential Acquisition Event</li> </ul> <p>Subject to conditions, all Capital Notes must be Converted following an Acquisition Event</p> <p>Capital Note Holders have no right to request an Exchange</p> <p>Capital Note Holders should not assume that APRA's approval will be given if requested</p>	<p>IAG may elect (with APRA's prior written approval) to:</p> <p>exchange all or some CPS on an optional exchange date, following a tax event or regulatory event; or</p> <p>exchange all CPS on an exchange date following a potential acquisition event</p> <p>Subject to conditions, all CPS must be redeemed or converted following an acquisition event</p> <p>CPS holders have no right to request an exchange</p> <p>CPS holders should not expect that APRA's approval will be given if requested</p>
<b>Exchange method</b>	Conversion, Redemption, Resale or a combination of Conversion, Redemption and/or Resale	Conversion, redemption or a combination of conversion and redemption
<b>Ranking in a winding-up</b>	<p>Rank ahead of Ordinary Shares, equally with Equal Ranking Instruments (including the CPS), but behind all Senior Ranking Creditors</p> <p>Return in a winding-up may be adversely affected on account of a Non-Viability Trigger Event</p>	<p>Rank ahead of Ordinary Shares, equally with equal ranking instruments (including the Capital Notes), but behind all senior ranking creditors</p> <p>Return in a winding-up may be adversely affected on account of a non-viability trigger event</p>
<b>Voting rights</b>	No right to vote at general meetings of Shareholders	No right to vote at general meetings of Shareholders, except in limited circumstances
<b>Capital classification</b>	Additional Tier 1 Capital	Additional Tier 1 Capital until 1 May 2017



## 6.3 WHAT ARE THE OPTIONS AVAILABLE TO ELIGIBLE CPS HOLDERS?

If you were a registered holder of CPS at 7:00pm on 18 November 2016, are shown on the CPS register as having an address in Australia, and are not in the United

States or acting as nominee for a person in the United States, you are an Eligible CPS Holder and have the options set out below:

Option	What should Eligible CPS Holders do?
<b>Option 1</b> – apply directly to IAG for your CPS to be reinvested in Capital Notes	<ul style="list-style-type: none"> <li>You may apply to participate in the Reinvestment Offer by completing an Application Form. The completed Application Form must be received online or by the Registrar no later than 5:00pm on the Closing Date for the Reinvestment Offer which is expected to be 16 December 2016. See Section 7.2 for further information on how to make an Application.</li> <li>If you make an Application under the Reinvestment Offer, you will not be required to make an Application Payment in respect of that Application, as the CPS buy-back proceeds will be applied to the Application Payment.</li> </ul> <p>You can apply to reinvest all or part of your CPS as follows:</p> <p><i>Alternative A: full reinvestment</i></p> <ul style="list-style-type: none"> <li>You may apply to reinvest all of the CPS registered in your name at 7:00pm on 18 November 2016 in Capital Notes.</li> <li>If you own 50 CPS or fewer and wish to participate in the Reinvestment Offer, you must choose this alternative.</li> <li>To choose this alternative, you must indicate “full reinvestment” on your Application Form.</li> </ul> <p><i>Alternative B: partial reinvestment</i></p> <ul style="list-style-type: none"> <li>You may apply to have only some of the CPS registered in your name at 7:00pm on 18 November 2016 reinvested in Capital Notes.</li> <li>To choose this alternative, you must specify the number of CPS to be reinvested on your Application Form. You must apply to reinvest at least 50 CPS.</li> </ul>
<b>Option 2</b> – apply to reinvest your CPS in Capital Notes through your Syndicate Broker	<ul style="list-style-type: none"> <li>If you are an Eligible CPS Holder and are an Australian resident retail or high net worth client of a Syndicate Broker, you may apply for Capital Notes through your Syndicate Broker.</li> <li>You may apply to reinvest all or some of the CPS registered in your name at 7:00pm on 18 November 2016 in Capital Notes. You may also choose to apply for more Capital Notes.</li> <li>If you apply to reinvest your CPS, you will not be required to make a separate Application Payment.</li> <li>You may also choose to apply for more Capital Notes than the number of CPS registered in your name at 7:00pm on 18 November 2016. If you apply for more Capital Notes you will be required to make a separate Application Payment in respect of those additional Capital Notes applied for.</li> <li>You should contact your Syndicate Broker for instructions on how to submit an Application Form and, if applicable, an Application Payment.</li> </ul>
<b>Option 3</b> – take no action	<ul style="list-style-type: none"> <li>You are not required to participate in the Reinvestment Offer and as such you are not required to take any action.</li> <li>If you take no action, your CPS will remain on issue in accordance with their terms.</li> <li>Under the CPS Terms, IAG may elect to exchange the CPS on 1 May 2017 but no decision has yet been made.</li> </ul>

## 6.4 WHAT ARE THE RISKS ASSOCIATED WITH PARTICIPATING IN THE REINVESTMENT OFFER?

If you are an Eligible CPS Holder and you apply under the Reinvestment Offer, you may receive an allocation of Capital Notes.

As such, you will be subject to the risks associated with an investment in Capital Notes and in IAG, many of which are outside the control of IAG and its Directors. These risks are outlined in Section 5 and should be considered before you apply under the Reinvestment Offer.

The buy-back proceeds for a Reinvested CPS may be less than the ASX trading price of CPS. Rather than participating in the Reinvestment Offer, Eligible CPS Holders may obtain a better financial outcome by selling their CPS on market and investing the proceeds in Capital Notes.

# ABOUT THE OFFER AND HOW TO APPLY.

This section provides information about the Offer, including how to apply. The key dates in relation to the Offer are outlined on page 7.

## 7.1 THE OFFER

### 7.1.1 Overview

The Offer is for the issue of Capital Notes to raise \$300 million with the ability to raise more or less.

The Offer comprises:

- an Institutional Offer to certain Institutional Investors;
- a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers; and
- a Reinvestment Offer made to Eligible CPS Holders.

Applications from Eligible CPS Holders under the Reinvestment Offer can be made either:

- directly to IAG; or
- through a Syndicate Broker.

### 7.1.2 Obtaining a Prospectus and Application Form

During the Exposure Period, an electronic version of this Prospectus (without an Application Form) will be available to eligible investors at [www.iag.com.au](http://www.iag.com.au). Application Forms will not be made available until after the Exposure Period.

During the Offer Period:

- an electronic version of this Prospectus with an Application Form will be available to eligible investors through [www.iag.com.au](http://www.iag.com.au) and may be available through your Syndicate Broker; and
- Eligible CPS Holders can apply to reinvest their CPS online at [www.iag.com.au](http://www.iag.com.au).

#### Electronic access to this Prospectus

The following conditions apply if this Prospectus is accessed electronically:

- you must download and read the entire Prospectus;
- your Application will only be considered where you have applied online or on an Application Form that was attached to or accompanied by a copy of this Prospectus;

- this Prospectus is available electronically to you only if you are accessing and downloading or printing the electronic copy of the Prospectus in Australia, or if you are an Eligible CPS Holder in Australia; and
- during the Offer Period, Eligible CPS Holders will be sent a copy of this Prospectus. You can also request a free paper copy of this Prospectus and an Application Form by calling the IAG Capital Notes Offer information line on **1300 647 382** (within Australia) or **+61 3 9415 4123** (Monday to Friday – 8:30am to 5:00pm Sydney time).

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, a printed copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applications will only be considered where Applicants have applied online or pursuant to an Application Form that was attached to, or accompanied by, a copy of this Prospectus.

## 7.2 HOW TO APPLY

### 7.2.1 Apply through a Syndicate Broker

Who may apply	<ul style="list-style-type: none"><li>Australian resident retail or high net worth clients of a Syndicate Broker.</li></ul>
When to apply	<ul style="list-style-type: none"><li>Applications will only be accepted during the Offer Period, which is expected to commence on 29 November 2016.</li><li>The Closing Date for the Broker Firm Offer is expected to be 10:00am on 21 December 2016, excluding applications to reinvest CPS in Capital Notes which must be received by 5:00pm on 16 December 2016. Your completed Application Form and Application Payment (if applicable) must be received by your Syndicate Broker in accordance with arrangements made between your Syndicate Broker and you.</li><li>If you are a client of a Syndicate Broker, please contact your broker directly for instructions as to how to participate in the Offer.</li></ul>
How to apply	<ul style="list-style-type: none"><li>Contact your Syndicate Broker for instructions.</li></ul>
Minimum application amount	<ul style="list-style-type: none"><li>Your Application must be for a minimum of 50 Capital Notes (\$5,000).</li><li>Your Syndicate Broker will inform you of your allocation.</li></ul>

As there is no general offer, retail investors that are not Eligible CPS Holders, or Eligible CPS Holders that would like to apply for Capital Notes in excess of their current CPS holding, will need to apply through a Syndicate Broker.

### 7.2.2 Apply directly to IAG to reinvest your CPS

Who may apply	<ul style="list-style-type: none"><li>Eligible CPS Holders under the Reinvestment Offer.</li></ul>
When to apply	<ul style="list-style-type: none"><li>Applications will only be accepted during the Offer Period, which is expected to commence on 29 November 2016.</li><li>The Closing Date for the Reinvestment Offer is expected to be 5:00pm on 16 December 2016.</li><li>Completed Applications must be received online or by the Registrar by the Closing Date.</li></ul>
How to apply using a paper Application Form	<ul style="list-style-type: none"><li>A paper copy of this Prospectus and a personalised Application Form will be sent to you on or around 2 December 2016.</li><li>You can request an additional paper copy of the Prospectus and your personalised Application Form by calling the IAG Capital Notes Offer information line on <b>1300 647 382</b> (within Australia) or <b>+61 3 9415 4123</b> (Monday to Friday – 8:30am to 5:00pm Sydney time).</li><li>Instructions on how to complete your personalised Application Form are set out in the Application Form.</li><li>You will be required to submit your completed personalised Application Form to the Registrar so it is received by the Closing Date. You should allow sufficient time for your Application to be received before the Closing Date. If you have any doubts that your Application may not be received in time, please consider applying online.</li><li>If you are applying to reinvest through a Syndicate Broker, see Section 7.2.1.</li></ul>
How to apply online	<ul style="list-style-type: none"><li>Eligible CPS Holders who wish to reinvest their CPS may apply online.</li><li>You can apply online at <a href="http://www.iag.com.au">www.iag.com.au</a>.</li><li>Instructions on how to complete your Application are provided online.</li><li>You will need your SRN or HIN which can be found on your CPS holding statement, CPS dividend payment statement and certain materials sent to you by IAG in relation to the offer.</li><li>CHESS sponsored holders may also seek instructions from their broker or controlling participant as to how to reinvest their CPS.</li></ul>
Minimum application amount	<ul style="list-style-type: none"><li>Your Application must be for a minimum of 50 Capital Notes (\$5,000). Note that Eligible CPS Holders who wish to participate in the Reinvestment Offer and who own 50 CPS or fewer must apply to reinvest all CPS in Capital Notes.</li></ul>

## 7.3 OTHER INFORMATION

### 7.3.1 Where do I send my paper Application Form?

If you apply directly to IAG under the Reinvestment Offer using a paper Application Form, you must submit your completed paper Application Form (either by mail, fax or email) using the details below so that it is received by the Registrar before the Closing Date, which is expected to be 5:00pm on 16 December 2016.

**By mail:**

IAG Capital Notes Offer  
c/o Computershare Investor Services Pty Limited  
GPO Box 2115  
Melbourne, VIC 3001

**By fax:** +61 3 9473 2093

**By email:**

[iag\\_notes@computershare.com.au](mailto:iag_notes@computershare.com.au)

Paper Application Forms will not be accepted at any other address or office and will not be accepted at IAG's registered office or any other IAG office or at other offices or branches of the Registrar.

### 7.3.2 Is any brokerage, commission or stamp duty payable?

No brokerage, commission or stamp duty is payable on your Application. You may have to pay brokerage, but will not have to pay any stamp duty, on any later sale of your Capital Notes on market after Capital Notes have been quoted on ASX.

### 7.3.3 Will Application Payments be held on trust?

All Application Payments received before Capital Notes are issued will be held by IAG on trust in an account established solely for the purposes of depositing Application Payments received. Any interest that accrues in that account will be retained by IAG. After Capital Notes are issued to successful Applicants, the Application Payments held on trust will be payable to IAG.

### 7.3.4 How will refunds (if any) be made?

In the event that the Offer, or any part of it, does not proceed for any reason, all Applicants will have their Application Payments refunded (without interest) as soon as practicable.

### 7.3.5 Do I need to provide my TFN or ABN?

You do not have to provide your TFN or ABN and it is not an offence if you fail to do so. However, in respect of Capital Note Holders, IAG may be required to withhold Australian tax at the maximum marginal tax rate (currently 49% including both the Medicare levy and the Temporary Budget Repair levy, and 47% from the start of the 2017–18 income year after the intended cessation of the Temporary Budget Repair levy) on the unfranked part of any Distribution unless the Capital Note Holder provides a TFN, a TFN exemption number (if applicable) or an ABN (if Capital Notes are held in the course of an enterprise carried on by the Capital Note Holder).

The collection and quotation of TFNs and ABNs are authorised, and their use and disclosure are strictly regulated, by tax laws and the Privacy Act.

Successful Applicants who do not have an address in Australia registered with the Registrar, or who direct the payment of any Distribution to an address outside Australia, may have an amount deducted for Australian withholding tax from any Distribution paid, to the extent that the Distribution is not fully franked.

### 7.3.6 Bookbuild

The Bookbuild is a process that will be conducted by the Joint Lead Managers before the Opening Date to determine the Margin and firm allocations of Capital Notes to Bookbuild participants, by agreement with IAG. In this process, the Bookbuild participants are invited to lodge bids for a number of Capital Notes. On the basis of those bids, the Joint Lead Managers and IAG, by mutual agreement, determine the Margin and the firm allocations to Syndicate Brokers and to certain Institutional Investors under the Institutional Offer. The Bookbuild will be conducted in the manner contemplated in this Prospectus and otherwise on the terms and conditions agreed to by IAG and the Joint Lead Managers in the Offer Management Agreement.

IAG may increase the size of the Offer following the close of the Bookbuild.

### 7.3.7 Allocation policy

Institutional Offer	<ul style="list-style-type: none"><li>• Institutional Investors wishing to apply for Capital Notes should contact the Joint Lead Managers before the Bookbuild.</li><li>• Allocations to Institutional Investors will be determined by IAG in consultation with the Joint Lead Managers.</li><li>• Allocations to Institutional Investors will be advised to those investors under the Bookbuild.</li></ul>
CPS Holder Applicants	<ul style="list-style-type: none"><li>• Allocations to the CPS Holder Applicants will be determined by IAG in consultation with the Joint Lead Managers after the Closing Date.</li><li>• IAG (at its discretion and in consultation with the Joint Lead Managers) reserves the right to scale back Applications from CPS Holder Applicants. Any scale back will be announced on ASX on the day Capital Notes commence trading on a deferred settlement basis – expected to be 23 December 2016.</li><li>• IAG, after consultation with the Joint Lead Managers, has absolute discretion to determine the method and extent of the allocation.</li><li>• IAG (at its discretion and in consultation with the Joint Lead Managers) reserves the right to:<ul style="list-style-type: none"><li>– allocate to any CPS Holder Applicant all Capital Notes for which they have applied;</li><li>– reject any Application by a CPS Holder Applicant; or</li><li>– allocate to any CPS Holder Applicant a lesser number of Capital Notes than that applied for, including less than the minimum Application of Capital Notes, or none at all.</li></ul></li><li>• No assurance is given that any CPS Holder Applicant will receive an allocation.</li><li>• CPS Holder Applicants will be able to confirm their allocation after the Issue Date by calling the IAG Capital Notes Offer information line on <b>1300 647 382</b> (within Australia) or <b>+61 3 9415 4123</b> (Monday to Friday – 8:30am to 5:00pm Sydney time).</li></ul>
Broker Firm Applicants	<ul style="list-style-type: none"><li>• Allocations to Syndicate Brokers will be determined by IAG in consultation with the Joint Lead Managers.</li><li>• Allocations to Broker Firm Applicants by a Syndicate Broker are at the discretion of that Syndicate Broker.</li><li>• Broker Firm Applicants will be able to confirm their firm allocation through their Syndicate Broker.</li></ul>

### 7.3.8 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, Capital Notes or the Offer or otherwise to permit a public offering of Capital Notes in any jurisdiction outside Australia.

The distribution of this Prospectus (including an electronic copy) outside Australia may be restricted by law. If you come into possession of this Prospectus outside Australia, then you should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may violate securities laws. This Prospectus does not constitute an offer or invitation in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

This Prospectus (including an electronic copy) may not be distributed or released, in whole or in part, in the United States.

Neither the Capital Notes nor the Ordinary Shares have been or will be registered under the US Securities Act or the securities laws of any state of the United States, and they may not be offered or sold in the United States. The Capital Notes are being offered and sold in the Offer solely outside the United States pursuant to Regulation S under the US Securities Act.

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

Each person submitting an Application Form will be deemed to have acknowledged that they are aware of the restrictions referred to in this Section 7.3.8 and to have represented and warranted that they are able to apply for and acquire Capital Notes in compliance with those restrictions.

### 7.3.9 Application to ASX for quotation of Capital Notes

IAG will apply, within seven days after the date of this Prospectus, to ASX for Capital Notes to be quoted on ASX. If ASX does not grant permission for Capital Notes to be quoted within three months after the date of this Prospectus, Capital Notes will not be issued and all Application Payments will be refunded (without interest) to Applicants as soon as practicable.

### 7.3.10 CHESS and issuer sponsored holdings

IAG will apply for Capital Notes to participate in CHESS. No certificates will be issued for Capital Notes. IAG expects that Holding Statements will be despatched to successful Applicants by 29 December 2016.

### 7.3.11 Deferred settlement trading and selling Capital Notes on market

It is expected that Capital Notes will begin trading on ASX on a deferred settlement basis on 23 December 2016 under ASX code "IAGPD". Trading is expected to continue on that basis until 30 December 2016, when it is anticipated that trading of Capital Notes will begin on a normal settlement basis. Deferred settlement will occur as a consequence of trading which takes place before Holding Statements are despatched to successful Applicants.

You are responsible for confirming your holding before trading in Capital Notes.

If you are a successful Applicant and sell your Capital Notes before receiving your Holding Statement, you do so at your own risk.

You may call the IAG Capital Notes Offer information line on **1300 647 382** (within Australia) or **+61 3 9415 4123** (Monday to Friday – 8:30am to 5:00pm Sydney time) or your Syndicate Broker, after the Issue Date to enquire about your allocation.

### 7.3.12 Provision of bank account details for Distributions

IAG's current policy is that Distributions and any other amount payable in connection with the Capital Notes:

- will be paid by direct credit to a bank account maintained in Australia with a financial institution specified by the Capital Note Holder; and
- where no account is specified by a Capital Note Holder, may not be paid to the Capital Note Holder, but will be held by or on behalf of IAG for the Capital Note Holder in accordance with the Capital Notes Terms.

### 7.3.13 Discretion regarding the Offer

IAG reserves the right not to proceed with the Offer (and may withdraw the Offer) at any time before the issue of Capital Notes to successful Applicants.

If the Offer, or any part of it, does not proceed, all relevant Application Payments will be refunded (without interest).

IAG and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Capital Notes than applied or bid for. This is at IAG's discretion, and IAG is under no obligation to exercise that discretion in any particular case.

Investors should also note that no cooling off rights (whether by law or otherwise) apply to an investment in Capital Notes. This means that, in most circumstances, Applicants may not withdraw their Applications once submitted.

### 7.3.14 Enquiries

You can view the Offer website at **[www.iag.com.au](http://www.iag.com.au)** or call the IAG Capital Notes Offer information line on **1300 647 382** (within Australia) or **+61 3 9415 4123** (Monday to Friday – 8:30am to 5:00pm Sydney time) if you:

- have further questions on how to apply for Capital Notes;
- require assistance to complete your Application Form;
- require additional copies of this Prospectus and Application Forms; or
- have any other questions about the Offer.

IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser.

If you are a Broker Firm Applicant you should call your Syndicate Broker if you have further questions about your Application.



# AUSTRALIAN TAXATION SUMMARY.

## 8.1 INTRODUCTION

The following is a summary of the main Australian tax consequences under the Tax Act for CPS holders who are residents of Australia for Australian taxation law purposes and subscribe for Capital Notes under the Prospectus and hold them on capital account, and for investors who are not CPS holders and who subscribe under the Offer, who are residents of Australia for Australian tax law purposes and hold their Capital Notes on capital account.

The summary is not exhaustive and does not consider the Australian tax consequences for all CPS holders and Capital Note Holders. In particular, it does not consider the Australian tax consequences for:

- CPS holders and Capital Note Holders who are not residents of Australia for Australian taxation law purposes;
- CPS holders and Capital Note Holders who carry on business at or through a permanent establishment outside Australia; or
- CPS holders and Capital Note Holders who hold Capital Notes as assets used in carrying on a business of share trading, banking or investment or otherwise hold Capital Notes on revenue account or as trading stock.

This summary does not constitute legal or taxation advice and is of a general nature only. If you are considering investing in Capital Notes you should obtain independent legal and taxation advice relevant to your particular circumstances.

This summary is based on Australian tax legislation, interpretations of that legislation and administrative practice as at the date of this Prospectus.

## 8.2 CLASS RULING SOUGHT ON THE CAPITAL NOTES

IAG has applied for a class ruling from the Commissioner of Taxation requesting confirmation of the Commissioner's views of the income tax consequences of receiving Distributions on and disposing of or Converting Capital Notes. As at the date of this taxation summary, the class ruling has not yet been published. It is expected that the Commissioner will publish a favourable class ruling on the income tax consequences of receiving Distributions on and disposing of or Converting Capital Notes as discussed below, although publication may not occur until after the date that the Capital Notes are issued. However, it is expected that a draft class ruling will be provided by the Commissioner prior to the Closing Date for the Reinvestment Offer.

### 8.3 INCOME TAX CONSEQUENCES OF EXCHANGING CPS

Eligible CPS Holders who participate in the Reinvestment Offer will have their CPS bought back for \$100 each on 22 December 2016 and have the buy-back proceeds (i.e. \$100 per CPS) applied to the Application Payment for Capital Notes. In addition, those Eligible CPS Holders will also receive the Pro Rata Dividend for their Reinvested CPS, subject to the payment tests in the CPS Terms.

As a general matter, the income tax implications for each CPS holder in respect of this exchange should be as follows:

- a CGT event will happen to a CPS holder upon exchange of their CPS. The buy-back proceeds should be treated as consideration for capital gains tax purposes. This means that a capital gain would arise if the buy-back proceeds exceeded the cost base of the CPS to the CPS holder. A capital loss may arise if the buy-back proceeds were less than the reduced cost base for the CPS.

If a CPS holder acquired CPS upon issue by IAG (as opposed to a CPS holder who acquired CPS from a previous CPS holder), their cost base would include the \$100 issue price of the CPS, and certain non-deductible incidental costs such as brokerage fees.

If the CPS holder derives a capital gain upon exchange of their CPS, the 50% CGT discount may be available in circumstances where the CPS holder acquired the CPS at least 12 months prior to the exchange. The CGT discount is not available to CPS holders which are companies, and will be available only at a 33.3% rate for complying superannuation entities; and

- the Pro Rata Dividend will be included in the CPS holder's assessable income as a distribution. To the extent that the Pro Rata Dividend is franked, the CPS holder will also be required to include in their assessable income the attached franking credits.

Subject to the comments below at Section 8.6.2 regarding Qualified Persons, a CPS holder who is an individual or a complying superannuation entity may be entitled to tax offsets based on the franking credits attached to the Pro Rata Dividend, or to a tax refund to the extent that the tax offsets exceed the tax that is otherwise payable by the CPS holder.

If a CPS holder is a company, a franking credit should arise in its franking account to the extent that the Pro Rata Dividend is franked, subject to the comments in Section 8.6.2 regarding Qualified Persons.

The application of the Qualified Person rules will depend upon the particular circumstances of each CPS holder. Accordingly, CPS holders should obtain independent tax advice as to whether they will be treated as a Qualified Person in relation to the Pro Rata Dividend.

### 8.4 GOODS AND SERVICES TAX ("GST")

No Australian GST should be payable on the issue, disposal or redemption of Capital Notes as the supply of Capital Notes should be a "financial supply" and is therefore input taxed. Further, the Conversion of the Capital Notes to Ordinary Shares will not constitute a taxable supply and no GST will be payable on this event.

### 8.5 STAMP DUTY

No stamp duty should be payable on the buy-back of CPS from a CPS holder, upon Application or on the issue of Capital Notes.

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

### 8.6 DISTRIBUTIONS ON THE CAPITAL NOTES

#### 8.6.1 General treatment

The Capital Notes should be characterised as equity interests for income tax purposes.

Accordingly, Distributions paid on the Capital Notes will be frankable. Such Distributions may be franked, unfranked or only partially franked. As noted at Section 2.1.5, IAG intends to fully frank all Distributions on the Capital Notes.

The amount of the cash Distribution payable will be determined by the Distribution Rate, the calculation of which takes into account the level of franking credits attached and changes in the corporate tax rate so that Capital Note Holders receive a particular gross yield for each Distribution paid.

A Capital Note Holder will be required to include in their assessable income the amount of any Distribution that they receive on their Capital Notes. To the extent that a Distribution is franked, a Capital Note Holder will be required to include in their assessable income the franking credits attached to that Distribution.

Subject to the comments in Section 8.6.2 regarding Qualified Persons, a Capital Note Holder who is an individual or a complying superannuation entity may be entitled to tax offsets based on the franking credits attached to a distribution, or to a tax refund to the extent that the tax offsets exceed the tax that is otherwise payable by the Capital Note Holder.

If a Capital Note Holder is a company, a franking credit should arise in its franking account to the extent that the distribution is franked, subject to the comments in Section 8.6.2 regarding Qualified Persons.

#### 8.6.2 Qualified Person

A Capital Note Holder must be a Qualified Person regarding a Distribution paid on their Capital Notes before they will be entitled to the benefit of the tax offsets that flow from receiving franked Distributions.



A Capital Note Holder will be a Qualified Person in respect of their Capital Notes if they have held their Capital Notes at risk for a continuous period of at least 90 days (excluding the days of acquisition and disposal) during:

- where neither the Capital Note Holder nor an associate has made, is under an obligation to make, or is likely to make, a Related Payment in respect of the Distribution (which has the effect of passing on the Distribution to other entities) – the primary qualification period, being the period beginning the day after the Capital Note Holder acquired the Capital Notes and ending on the 90th day after the day on which the Capital Notes became ex-Distribution; or
- where a Capital Note Holder, or an associate has made, is under an obligation to make, or is likely to make a Related Payment – the secondary qualification period, being the period beginning on the 90th day before and ending on the 90th day after the day on which the Capital Notes became ex-Distribution.

A Capital Note Holder that is an individual and who will not claim tax offsets in excess of \$5,000 in any one year will be taken to be a Qualified Person in relation to all distributions paid during that income year, provided that the Capital Note Holder has not made, is not likely to make or under an obligation to make a Related Payment in respect of the distributions.

### 8.6.3 Anti-avoidance rules

Section 177EA of the Tax Act is an anti-avoidance provision that applies to schemes in respect of which, having regard to objective factors, it would be concluded that the person, or persons, who entered into or carried out the scheme or any part of the scheme did so for a purpose (whether or not the dominant purpose but not including an incidental purpose) of enabling the relevant taxpayer to obtain an imputation benefit.

It is considered that section 177EA will not apply to the issue of Capital Notes by IAG.

## 8.7 DISPOSAL OF THE CAPITAL NOTES

### 8.7.1 Disposal other than through Conversion

The Commissioner is likely to issue the class ruling on the basis that the Capital Notes are not traditional securities and accordingly, to the extent to which the proceeds of disposal exceed the cost base for the Capital Notes, a capital gain will arise. Conversely, if the proceeds of disposal are less than the reduced cost base for the Capital Notes, a capital loss will arise.

The Commissioner's views are not beyond doubt and it is arguable that the Capital Notes are traditional securities. Any gains on the disposal of a traditional security will be included in the assessable income of the taxpayer for the income year in which the disposal takes place. If the taxpayer makes a loss on the disposal of a traditional security, that loss is allowable as a deduction from the assessable income of the taxpayer of the income year in which the disposal takes place.

Any redemption or buy-back of the Capital Notes will be done in exchange for their Issue Price of \$100. Unless the Capital Note Holder has incurred certain non-deductible incidental costs such as brokerage, no gain or loss will arise to the Capital Note Holder as a result of that redemption or buy-back.

It is recommended that investors seek professional advice referable to their own circumstances in relation to this matter.

### 8.7.2 Taxation of financial arrangements

Division 230 of the Tax Act contains tax-timing rules for certain taxpayers in relation to recognising gains and losses from "financial arrangements". The Capital Notes will be "equity interests" for income tax purposes and will therefore be "financial arrangements" for the purposes of Division 230.

Division 230 does not apply to certain taxpayers. It generally does not apply to Capital Note Holders who are individuals, or to certain other entities (e.g. superannuation funds and managed investment schemes) which meet various turnover or asset thresholds, unless they elect for Division 230 to apply to all of their "financial arrangements".

Furthermore, gains and losses made from equity interests will only be subject to Division 230 in limited circumstances. More specifically, if Division 230 applies to a Capital Note Holder, Division 230 provides that the accruals, realisation, foreign exchange retranslation and, generally, the hedging financial arrangement methods do not apply to gains or losses from a financial arrangement that is an equity interest, such as the Capital Note. Therefore, only the fair value or the financial reports elective methods may potentially apply to an investment in the Capital Note, but this will depend upon the Capital Note Holder's individual circumstances, including whether the Capital Note Holder has made a relevant election.

### 8.7.3 Disposal via Conversion

Each Capital Note will also be a "CGT asset" under the capital gains tax provisions of the Tax Act. The Capital Notes Terms provide that, on Conversion of each Capital Note, IAG will issue a number of Ordinary Shares in respect of each Capital Note.

The Capital Note Holders' rights in relation to each Capital Note being Converted will be terminated for an amount equal to the Issue Price of that Capital Note, and IAG will apply that amount to the holder's subscription for Ordinary Shares.

The Capital Notes are an interest issued by IAG that gives its holder a right to be issued with an equity interest in IAG. Where Conversion occurs, any capital gain or loss made by the holder from that Conversion is disregarded.

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## 8.8 PROVISION OF TFN OR ABN

Where a Capital Note Holder has provided IAG with their tax file number ("TFN"), or in certain circumstances their Australian Business Number ("ABN"), or is otherwise exempt from providing this information, no amount of tax should be withheld by IAG from Distributions paid to the Capital Note Holder.

You do not have to provide this information and it is not an offence if you fail to do so. However IAG will be required to withhold Australian tax at the maximum marginal tax rate (currently 49% including both the Medicare levy and the Temporary Budget Repair levy, and 47% from the start of the 2017–18 income year after the intended cessation of the Temporary Budget Repair levy) from any Distribution payment that is not 100%

franked, and remit the amount withheld to the Australian Taxation Office, unless and until you provide your TFN, (in certain circumstances) your ABN or proof of some other exception. A Capital Note Holder should be entitled to claim a tax credit/refund (as applicable) in respect of any tax withheld on a Distribution payment in their Australian income tax returns.

## 8.9 FATCA WITHHOLDING

IAG may withhold or make deductions from payments or from the issue of Ordinary Shares to a Capital Note Holder where it is required to do so under FATCA, or where it has reasonable grounds to suspect that the Capital Note Holder or a beneficial owner of Capital Notes may be subject to FATCA. IAG may deal with such payment, and any Ordinary Shares in accordance with FATCA.

IAG will not be required to pay any further amounts or issue any further Ordinary Shares on account of such withholding or deduction or otherwise reimburse or compensate a Capital Note Holder or a beneficial owner of Capital Notes for or in respect of that withholding or deduction. A dealing with such payment and any Ordinary Shares in accordance with FATCA satisfies IAG's obligations to that Capital Note Holder to the extent of the amount of that payment or issue of Ordinary Shares.

9

# ADDITIONAL INFORMATION.

This section provides information about  
a number of other matters not covered  
elsewhere in this Prospectus.



## 9.1 INTERESTS AND BENEFITS

### 9.1.1 Directors

The Directors as at 17 November 2016 had the following relevant interests in issued securities of IAG:

Director	Number of Ordinary Shares
Elizabeth Bryan AM <sup>1</sup>	33,523
Peter Harmer <sup>2</sup>	825,788
Alison Deans <sup>3</sup>	37,742
Hugh Fletcher	82,836
Raymond Lim	35,000
Jonathan Nicholson	24,589
Tom Pockett	32,345
Philip Twyman <sup>4</sup>	15,522

<sup>1</sup> Also holds 18,877 options/rights over Ordinary Shares.

<sup>2</sup> Also holds 1,352,112 options/rights over Ordinary Shares.

<sup>3</sup> Also holds 4,720 options/rights over Ordinary Shares.

<sup>4</sup> Also holds 5,109 CPS.

Other than as set out in this Prospectus, no Director or proposed Director holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

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

Other than as set out in this Prospectus, no amount (whether in cash, Ordinary 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:

- to induce a person to become, or qualify as, a Director; or
- for services provided by a Director or proposed Director in connection with the formation or promotion of IAG or the Offer.

### 9.1.2 Directors' fees

The Constitution contains provisions about the remuneration of the Directors. As remuneration for their services as Directors, the non-executive Directors are paid an amount of remuneration determined by the Board, subject to a maximum annual aggregate amount determined by Shareholders in a general meeting. The maximum annual aggregate amount has been set at \$3,500,000 (excluding retirement benefit payments). Each non-executive Director may also be paid additional remuneration for performance of additional services and is entitled to reimbursement of reasonable out-of-pocket expenses. The remuneration of the Managing Director and Chief Executive Officer may be fixed by the Board. The remuneration may consist of salary, bonuses or any other elements but must not be a commission on or percentage of profits or operating revenue.

### 9.1.3 Participation in the Offer

The Directors (and certain related persons) may collectively acquire up to 0.2% of the Capital Notes offered under the Offer without Shareholder approval (subject to certain conditions).

### 9.1.4 Professionals

National Australia Bank, UBS and Westpac Institutional Bank have acted as Joint Lead Managers to the Offer, in respect of which they will receive fees from IAG. The estimated aggregate fees payable by IAG to the Joint Lead Managers are approximately \$7 million (exclusive of GST), making certain assumptions as to the allocations of the Capital Notes. The aggregate fees include a structuring fee payable to UBS and a joint lead manager fee split equally among the Joint Lead Managers.

The Joint Lead Managers are responsible for paying all selling fees and other commissions payable to the Syndicate Brokers. IAG reserves the right to pay select institutional investors a cornerstone fee.

King & Wood Mallesons has acted as IAG's Australian legal and tax adviser in relation to the Offer, has prepared the Australian taxation summary in Section 8 and has performed corporate advisory work in connection with the Capital Notes. In respect of this work, King & Wood Mallesons will be paid approximately \$340,000 (excluding disbursements and GST) for work performed by it until the date of this Prospectus. Further amounts may be paid to King & Wood Mallesons in accordance with its time-based charges.

KPMG has acted as IAG's accounting adviser and provided due diligence services on certain financial disclosures in relation to the Offer. In respect of this work, KPMG will be paid approximately \$150,000 (excluding disbursements and GST) for work performed by it up until the date of this Prospectus. Further amounts may be paid to KPMG in accordance with its time-based charges.

Except as set out in this Prospectus, no:

- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus; or

- Joint Lead Manager or Co-Manager, holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

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

The Trust Company (Australia) Limited is acting as trustee for Capital Note Holders under the Trust Deed.

The Trust Company (Australia) Limited, and its directors, employees, officers, affiliates, agents, advisers, intermediaries and related bodies corporate:

- have not been involved in the preparation, authorised or caused the issue or distribution of this Prospectus and do not make any statement or purport to make any statement in this Prospectus or any statement on which a statement in this Prospectus is based;
- do not assume any responsibility for or make representations as to the information contained in this Prospectus, or the accuracy or completeness of any information contained in this Prospectus;
- to the maximum extent permitted by law, expressly disclaim all liability in respect of, make no representation or any statement regarding, and take no responsibility for, any part of this Prospectus, or any statements in, or omissions from this Prospectus, other than in the case of the Trustee, only references to its name and the statement(s) and/or report(s) (if any) specified below and included in this Prospectus with its written consent;

- in the case of the Trustee only, 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;
- have solely relied on IAG for the accuracy of the contents of this Prospectus; and
- do not make any representation or warranty as to the performance of Capital Notes, the payment of distributions or Exchange of Capital Notes, or the value of any Ordinary Shares issued on Conversion (or their proceeds of sale).

## 9.2 EXPENSES OF THE OFFER

The total expenses of the Offer will be paid out of the proceeds of the Offer. Assuming the Offer raises \$300 million, then the net proceeds of the Offer are expected to be \$293 million and the total expenses of the Offer (including fees payable to the Joint Lead Managers, legal, accounting, tax, marketing, administrative fees, as well as printing, advertising and other expenses related to this Prospectus and

the Offer and an allowance for possible cornerstone investor fees) are expected to be \$7 million. All of these expenses have been, or will be, borne by IAG.

## 9.3 CONSENTS

This Prospectus is authorised by each Director who consents, and has not withdrawn their consent, to the lodgement of this Prospectus with ASIC.

Except as set out below, each of the parties referred to in the following table:

- 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;
- has not made any statement in this Prospectus or any statement on which a statement made in this Prospectus is based; and
- does not cause or authorise the issue of this Prospectus, and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus:

Role	Consenting party
Arranger	UBS
Joint Lead Managers	National Australia Bank UBS Westpac Institutional Bank
Co-Managers	Crestone Wealth Management JBWere
Australian legal adviser	King & Wood Mallesons
Australian tax adviser	King & Wood Mallesons
Registrar	Computershare Investor Services Pty Limited
Auditor and accounting adviser	KPMG
Trustee	The Trustee Company (Australia) Limited

King & Wood Mallesons has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its consent to be named in this Prospectus as Australian tax adviser and for the inclusion of statements by it, consisting of the Australian taxation summary in Section 8

in the form and context in which it appears in Section 8.

KPMG has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn their consent to be named in this Prospectus as auditor and accounting

adviser and for the inclusion of statements made by them or based on statements made by them in Section 4 in the form and context in which they appear in Section 4.

## 9.4 ASX RELIEF

### 9.4.1 The Offer

ASX has classified the Capital Notes as “equity securities” and “convertible debt securities” for the purposes of the ASX Listing Rules and has confirmed that:

- ASX Listing Rule 3.20.2 and Appendix 3A of the ASX Listing Rules will not apply to the Conversion of the Capital Notes following the occurrence of a Non-Viability Trigger Event;
- the Capital Notes Terms are appropriate and equitable for the purposes of ASX Listing Rule 6.1;
- ASX Listing Rules 6.4 – 6.7 do not apply to the Capital Notes;
- the terms of the APRA constraints on the payment of Distributions do not amount to a removal of a right to a distribution for the purposes of ASX Listing Rule 6.10;
- Conversion, Redemption, Resale or Write Off by IAG as provided in the Capital Notes Terms is appropriate and equitable for the purposes of ASX Listing Rule 6.12;
- for the purposes of ASX Listing Rule 7.1, it is acceptable that the maximum number of Ordinary Shares into which Capital Notes can be Converted in accordance with ASX Listing Rules 7.1 and 7.1B.1 will be calculated by notionally converting Capital Notes at the Issue Date VWAP;
- ASX Listing Rule 10.11 has been waived to permit Directors (and their associates) to participate in the Offer, without Shareholder approval, on the following conditions:
  - the Directors (and their associates) are collectively restricted to applying for no more than 0.20% of the total number of Capital Notes issued under the Offer;
  - IAG releases the terms of the waiver to the market; and
  - when the Capital Notes are issued, IAG announces to the market the total number of Capital Notes issued to the Directors (and their associates) in aggregate; and
- the timetable for the Offer is acceptable.

ASX has also agreed to allow the Capital Notes to trade on a deferred settlement basis for a short time following the issue of the Capital Notes.

### 9.4.2 The Reinvestment Offer

ASX has confirmed in relation to the Reinvestment Offer that:

- the amendments to the CPS Terms (to facilitate the payment of any Pro Rata Dividend) are appropriate and equitable;
- the addition of an early dividend payment right is permitted under ASX Listing Rule 6.10;
- CHESS will apply a holding lock to any CPS the subject of an Application from a CPS Holder Applicant; and
- the timetable for the Reinvestment Offer is acceptable.

## 9.5 PRIVACY

If you lodge an Application, IAG will collect your personal information for the purposes of processing your Application, administering your Capital Notes and keeping in touch with you about your investment.

IAG respects your right to privacy and is committed to privacy protection. The Privacy Act details the ways in which private sector companies may collect, hold, use and disclose personal information.

The personal information collected by IAG will only be disclosed to the Registrar, to IAG’s related entities, and to other service providers and advisers involved in managing or administering the Offer, your Application or the Capital Notes, or as required or authorised by law.

These recipients may be located outside Australia (including in New Zealand) where your personal information may not receive the same level of protection as that afforded under Australian law.

If you do not provide the information requested, IAG may not be able to process your Application efficiently, if at all, administer your Capital Notes or make payments to you.

You may access the information IAG holds about you by writing to IAG, c/o Computershare Investor Services Pty Limited, at the address set out in the corporate directory at the end of this Prospectus.

You may be required to pay a reasonable charge to the Registrar to access your personal information.

The privacy policy of IAG is available at [www.iag.com.au/privacy-and-security](http://www.iag.com.au/privacy-and-security) and contains further information about how you may access your personal information that is held by IAG, seek to correct such information or make a privacy related complaint and outlines how such a complaint will be dealt with.

## 9.6 REPORTING AND DISCLOSURE OBLIGATIONS

IAG is admitted to the official list of ASX and is a disclosing entity for the purposes of the Corporations Act. As a disclosing entity, it is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. Broadly, these obligations require IAG to prepare both half yearly and yearly financial statements and to report on its operations during the relevant accounting period, and to obtain an audit or review report from its auditor.

Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office.

IAG must ensure that ASX is continuously notified of information about specific events and matters as they arise for the purposes of ASX making the information available to the Australian securities market.

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



## 9.7 AVAILABILITY OF DOCUMENTS

IAG will provide a copy of any of the following documents free of charge to any person upon their written request during the Offer Period:

- the annual financial report for the financial year ended 30 June 2016 lodged with ASIC by IAG;
- any continuous disclosure notices given by IAG in the period after the lodgement of the annual financial report of IAG for the financial year ended 30 June 2016 and before lodgement of this Prospectus with ASIC; and
- the Constitution.

The financial report for the financial year ended 30 June 2016 is available at [www.iag.com.au/results-and-reports](http://www.iag.com.au/results-and-reports).

Continuous disclosure notices lodged with ASX are available at [www.asx.com.au](http://www.asx.com.au) or at [www.iag.com.au/news-events/announcements](http://www.iag.com.au/news-events/announcements).

The Constitution is available at [www.iag.com.au/iag-amended-constitution](http://www.iag.com.au/iag-amended-constitution).

All written requests for copies of the above documents should be addressed to IAG Investor Relations at the IAG address set out in the corporate directory at the end of this Prospectus.

## 9.8 RIGHTS AND LIABILITIES ATTACHING TO THE CAPITAL NOTES

The rights and liabilities attaching to the Capital Notes are contained in the Trust Deed (which includes the Capital Notes Terms). The Capital Notes Terms are set out in Appendix A and the Trust Deed is summarised in Section 9.9. IAG must provide a copy of the Trust Deed to a Capital Note Holder on request.

Rights and liabilities attaching to the Capital Notes may also arise under the Corporations Act, the ASX Listing Rules and other laws.

## 9.9 SUMMARY OF THE TRUST DEED

IAG has entered into a trust deed dated on or about the date of this Prospectus with the Trustee. The following is a summary only of the principal provisions of the Trust Deed:

### 9.9.1 Appointment of Trustee

The Trustee has been appointed under the Trust Deed and holds the following on trust for the Capital Note Holders and itself in accordance with the Trust Deed:

- the right to enforce IAG's duty to repay under Capital Notes;
- the right to enforce any other duties or obligations that IAG has under the Capital Notes Terms, under the Trust Deed (to the Capital Note Holders or to the Trustee) or under Chapter 2L of the Corporations Act;
- the amount of \$10 (being the amount for the settlement of the trust); and
- any other property held by the Trustee on the trust established under the Trust Deed (including, without limitation, the benefit of any covenants, undertakings, representations, warranties, rights, powers, benefits or remedies in favour of the Trustee under the Trust Deed).

The Trust Deed contains provisions allowing the Trustee and its related bodies corporate to hold in any capacity Capital Notes, shares or any other marketable securities issued by IAG, and otherwise to deal with or on behalf of any Capital Note Holder, IAG or any of IAG's related entities without being liable to account to IAG or any Capital Note Holder.

### 9.9.2 Undertakings and covenants of IAG

IAG has undertaken to the Trustee, subject to any obligation of IAG to Convert or Write-Off Capital Notes, to pay the amounts due and payable in respect of each Capital Note under and in accordance with the Capital Note Terms. The Trustee directs IAG to pay such amounts directly to Capital Note Holders, except that payments must be made to the Trustee if a Winding-up Event has occurred and is subsisting, a controller has been appointed to IAG or IAG advises

the Trustee that it is not likely to meet its obligations under the Trust Deed.

IAG makes a number of covenants with the Trustee for the benefit of Capital Note Holders including to comply with its obligations under the Capital Notes Terms and Chapter 2L and section 318 of the Corporations Act.

### 9.9.3 Enforcement

Subject to the Trust Deed and section 283DA(h) of the Corporations Act, the Trustee may at any time in its discretion take action to enforce the Trust Deed (which includes the Capital Notes Terms) in accordance with its terms, but is not required to take any such action unless:

- it is requested to take action by Capital Note Holders who hold in aggregate 15% or more of the Issue Price of all Capital Notes then outstanding or by a Special Resolution of Capital Note Holders;
- it is indemnified to its reasonable satisfaction against all actions, proceedings, claims and demands to which the Trustee may be liable by taking such action, all costs which the Trustee may incur in taking action and all management time spent by employees or officers of the Trustee in relation to such action; and
- the action is permitted under the Trust Deed.

Except as otherwise agreed with any Capital Note Holder or Capital Note Holders, the Trustee is not entitled to be indemnified by any Capital Note Holder personally.

No Capital Note Holder is entitled to proceed directly against IAG to enforce any right or remedy under or in respect of any Capital Note or the Trust Deed unless the Trustee, having become bound so to proceed, fails to do so within 14 days and the failure is continuing, in which case any Capital Note Holder may institute proceedings against IAG for the relevant remedy to the same extent that the Trustee would have been entitled to do so.

### 9.9.4 Liability

Except to the extent arising as a result of the Trustee's fraud, gross negligence, material breach of its obligations under the Trust Deed or wilful default or breach of section 283DA(a), (b) or (c) of the Corporations Act, the Trustee is not liable to IAG or any other person in any capacity other than as trustee of the trust and the Trustee's liability is further limited to the assets of the Trust available to indemnify the Trustee for the liability.

### 9.9.5 Fees and expenses

IAG will pay the Trustee fees as agreed between IAG and the Trustee. IAG will also pay, on demand, the Trustee's reasonable expenses incurred in connection with execution of the Trust Deed and related expenses, losses and expenses incurred in connection with exercising, enforcing or preserving rights under the Trust Deed (or attempting to do so) and expenses properly incurred by the Trustee as the result of a Winding-up Event.

IAG will also pay, on demand, the Trustee's:

- costs reasonably and properly incurred in connection with any governmental or regulatory investigation, commission or enquiry concerning IAG, except where the Trustee did not consult with IAG before incurring those costs (if doing so would not have been unlawful, impractical or a breach by the Trustee of the Trust Deed) or where the expenses are admitted by the Trustee or proven before a court to have been incurred by the Trustee as a result of the Trustee's fraud, gross negligence, wilful default, material breach of its obligations under the Trust Deed or breach of section 283DA(a), (b) or (c) of the Corporations Act; and
- losses and expenses incurred or which arise out of or in the course of acting as Trustee, except where these expenses are admitted by the Trustee or proven before a court to have been incurred by the Trustee as a direct result of the Trustee's fraud, gross negligence, material breach of its obligations under the Trust Deed, material breach

of its obligations under the Trust Deed or wilful default or breach of section 283DA(a), (b) or (c) of the Corporations Act.

### 9.9.6 Retirement and removal

The Trustee may retire at any time by giving notice to IAG at least 60 days before the date it wants to retire or any other period which is agreed by IAG and the Trustee. IAG may in certain circumstances remove the Trustee by giving at least 60 days' notice to the Trustee (or such other period as IAG and the Trustee may agree), including:

- where the Trustee is in material breach of its obligations under the Trust Deed and has not rectified the breach within seven business days of receiving notice from IAG requesting the breach be remedied;
- as a result of the Trustee's fraud, gross negligence, material breach of its obligations under the Trust Deed or breach of section 283DA(a), (b) or (c) of the Corporations Act;
- where the Trustee ceases or has ceased or has expressed an intention to cease to carry on business;
- where the Trustee ceases to be a person which can be appointed as a Trustee under the Corporations Act; or
- where the Trustee is placed in liquidation or is wound-up or dissolved or a receiver, liquidator, administrator or similar person is appointed to the Trustee.

IAG may also remove the Trustee if authorised or requested to do so by a meeting of Capital Note Holders, by giving at least 60 days' notice to the Trustee (or such other period as IAG and the Trustee may agree). The removal or retirement of the Trustee does not take effect until the appointment of a new trustee is effective. IAG has the power to appoint a new trustee.

### 9.9.7 Meetings

By a Holder Resolution, Capital Note Holders have the power to approve certain amendments to the Trust Deed and to give directions to the Trustee as to the performance of its duties under the Trust Deed and the Capital Notes Terms. By a Special Resolution, Capital Note Holders may approve the release of the Trustee from liability for something done or omitted to be done, approve any act taken by the Trustee or approve certain amendments to the Trust Deed which are required to be approved by Special Resolution.

Where an amendment to the Capital Notes Terms or the Trust Deed may cause the Capital Notes to cease to be eligible for inclusion as Additional Tier 1 Capital of the IAG Level 2 Insurance Group, APRA's prior written approval of the amendment must be obtained.

Holder Resolutions and Special Resolutions may be passed either in meetings of Capital Note Holders or by postal ballot or written resolution. Resolutions proposed in meetings of Capital Note Holders must be passed by the requisite majority of the persons voting on a show of hands or, if a poll is demanded, then by a majority consisting of at least the requisite majority of the votes cast. On a show of hands, every Capital Note Holder who is present has one vote, and on a poll every Capital Note Holder who is present has one vote for every Capital Note with respect to which it is the registered Capital Note Holder. If the meeting is by postal ballot or written resolution, then the resolution must be passed by Capital Note Holders representing (in aggregate) at least the requisite majority of the Issue Price of the outstanding Capital Notes.

A meeting of Capital Note Holders may be convened at any time by either the Trustee or IAG. IAG must call a meeting of Capital Note Holders (or the relevant Capital Note Holders) on request in writing of Capital Note Holders who together hold 10% or more of the aggregate Issue Price of all Capital Notes to consider the financial statements that were laid before the last annual general meeting of IAG or to give the Trustee directions in relation to the



exercise of its powers under the Trust Deed. The Trustee must call a meeting of Capital Note Holders as soon as is reasonably practicable after becoming aware of a Winding-up Event occurring.

#### **9.9.8 No monitoring obligations**

The Trustee is not responsible for monitoring compliance by IAG with its covenants and obligations under the Trust Deed or any other activities, financial position or status of IAG including taking steps to ascertain whether a Mandatory Conversion Condition has been satisfied or there has occurred or is likely to occur any Winding-up Event, Non-Viability Trigger Event, Inability Event or Write-Off. This is subject to certain statutory duties imposed on the Trustee under Chapter 2L of the Corporations Act, including that it must:

- exercise reasonable diligence to ascertain whether:
  - the property of IAG that is or should be available will be sufficient to repay the amounts lent by Capital Note Holders in respect of Capital Notes when they become due; and
  - IAG has breached the Capital Notes Terms, the Trust Deed or the provisions of Chapter 2L of the Corporations Act; and
- do everything in its power to ensure that IAG remedies any breach known to the Trustee of the Capital Notes Terms, the Trust Deed or the provisions of Chapter 2L of the Corporations Act, unless the Trustee is satisfied that the breach will not materially prejudice Capital Note Holders' interests.

#### **9.9.9 Receipt of money**

All money received by the Trustee under the Trust Deed will be applied first in payment of any amounts owing to the Trustee in connection with the Trust Deed and secondly, in or towards payment of all amounts due but unpaid under Capital Notes to the relevant Capital Note Holders. The balance (if any) of the money remaining after those payments will be returned to IAG.

### **9.10 RIGHTS AND LIABILITIES ATTACHING TO ORDINARY SHARES**

Capital Note Holders may receive Ordinary Shares on Conversion. The rights and liabilities attaching to Ordinary Shares are set out in the Constitution and are also regulated by the Corporations Act, ASX Listing Rules and the general law.

This section summarises some of the key rights attaching to Ordinary Shares. It is not intended to be an exhaustive summary of the rights and obligations of Shareholders. Investors who wish to inspect the Constitution may do so at the registered office of IAG during normal office hours or may obtain a copy as provided under Section 9.7.

#### **9.10.1 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 the then prevailing Prudential Standards and if its assets exceed its liabilities by an amount sufficient for payment of the dividend, that payment is fair and reasonable to Shareholders and payment of the dividend does not materially prejudice IAG's ability to pay its creditors.

Subject to the rights of any other persons entitled to shares with special dividend rights, and subject to the terms of any issue of shares to the contrary, all dividends are to be paid, in the case of all fully paid shares to their holders in proportion to the number of shares held, and in the case of partly paid shares to their holders in proportion to the amount paid on the shares.

#### **9.10.2 Voting rights**

At any general meeting of IAG, every Shareholder has one vote on a show of hands and one vote for each Ordinary Share held on a poll.

#### **9.10.3 Transferability of Ordinary Shares**

While the Ordinary Shares are quoted on ASX, Shareholders will generally be able to sell or transfer their Ordinary Shares without restriction. This is subject to the limitations on shareholdings described in Section 5.1.21 in relation to the Financial Sector (Shareholdings) Act 1998 (Cth), the Corporations Act, the ASX Listing Rules and the Directors' ability to decline to register a transfer in certain limited circumstances.

#### **9.10.4 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.

### **9.11 SUMMARY OF THE OFFER MANAGEMENT AGREEMENT**

#### **9.11.1 Overview**

IAG has entered into an Offer Management Agreement with the Joint Lead Managers. Under the Offer Management Agreement, the Joint Lead Managers have agreed to manage the Offer, including the Bookbuild.

The following is a summary of the principal provisions of the Offer Management Agreement.

#### **9.11.2 Fees**

The fees payable to the Joint Lead Managers are set out in Section 9.1.4.

In addition, IAG must reimburse each Joint Lead Manager for reasonable expenses, including reasonable legal and travel costs, incurred by the Joint Lead Managers in relation to the Offer.

### 9.11.3 IAG's representations, warranties and undertakings

IAG gives various representations, warranties and undertakings to the Joint Lead Managers, including that the documents issued or published by or on behalf of IAG in respect of the Offer and all parts of the Offer comply with all applicable laws, including the Corporations Act and the ASX Listing Rules.

With the exception of the Capital Notes issue and certain other corporate actions (including an issue of shares in the same class as existing Ordinary Shares), IAG has also agreed that it will not (and will ensure that its controlled entities do not), without the Joint Lead Managers' prior written consent, allot or agree to allot, announce an issue of, indicate an intention to allot, or otherwise authorise the issue of, any Australian dollar denominated hybrid capital securities, notes, debentures, bonds or other debt capital market securities (including any security with Tier 1 Capital status), or make, agree to make or announce any buy-back of any security of IAG, at any time before 20 March 2017.

### 9.11.4 Termination events

Each Joint Lead Manager may terminate the Offer Management Agreement after the occurrence of certain events detailed in the Offer Management Agreement, including any one or more of the following events:

- the credit rating assigned to IAG at the date of the Offer Management Agreement by Standard & Poor's is downgraded or withdrawn or that credit rating is placed on credit watch negative;
- a contravention by IAG or any other entity in the Group, of the Corporations Act, any legally binding requirement of ASIC, APRA or ASX, its constitution, the ASX Listing Rules or other applicable law or regulation or any requirement, order or request, made by or on behalf of ASIC, ASX or any government agency;

- IAG issues or, in the reasonable opinion of that Joint Lead Manager, becomes or would be required to issue, a supplementary or replacement prospectus pursuant to section 719 of the Corporations Act (other than the replacement prospectus updated to include the Margin following successful completion of the Bookbuild) without the prior written consent of the Joint Lead Managers;
- approval is refused or not granted, other than subject to customary conditions, to the official quotation of all the Capital Notes on ASX on or before the settlement date for the Capital Notes, or if granted, the approval is subsequently withdrawn, qualified or withheld (or ASX makes an official statement to any person or indicates to IAG or the Joint Lead Managers that official quotation will not be granted);
- any of the following notifications are made:
  - ASIC issues an order or issues an interim order under section 739 of the Corporations Act other than where that interim order or order does not become public and is withdrawn within two business days after it is commenced or by 8:00am on the settlement date for the Capital Notes (whichever is earlier);
  - an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or the documents issued or published by or on behalf of IAG in respect of the Offer or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Offer or the documents issued or published by or on behalf of IAG in respect of the Offer and such application, investigation or hearing (as applicable) whether or not withdrawn becomes publicly known, or has not been withdrawn within two business days after it is made or prior to the settlement date for the Capital Notes (whichever is earlier);
- any person (other than the Joint Lead Manager seeking to terminate) who has previously consented to the inclusion of its name in the Prospectus (or any supplementary or replacement prospectus) or to be named in the Prospectus withdraws that consent or any other person (other than a Joint Lead Manager) whose consent to the issue of the Prospectus is required by section 716 of the Corporations Act refuses to give their consent; or
- any person gives a notice under section 730 of the Corporations Act in relation to the documents issued or published by or on behalf of IAG in respect of the Offer;
- IAG withdraws the Prospectus or the replacement prospectus (updated to include the Margin following successful completion of the Bookbuild) or the Offer;
- a Group member is insolvent (as set out in the Offer Management Agreement) or there is an act or omission made which may result in a Group member becoming insolvent;
- IAG is prevented from allotting and issuing the Capital Notes within the time required by the timetable under the Offer Management Agreement, the Corporations Act, ASX Listing Rules, applicable laws, an order of a court of competent jurisdiction or a government agency;
- a director of IAG is charged with an indictable offence relating to any financial or corporate matter or fraudulent or misleading or deceptive conduct, or any government agency commences any public action against any of IAG's directors in their capacity as a director of IAG;

- a default by IAG in the performance or observance of any of its obligations under the Offer Management Agreement occurs;
- a representation or warranty made or given by IAG under the Offer Management Agreement is not true or correct; or
- any adverse change occurs (or becomes known) after lodgement of the Prospectus in the assets, liabilities, financial position or performance, profits, losses or prospects of IAG or the Group, including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Group from those respectively disclosed in the Prospectus or the documents issued or published by, or on behalf of, IAG in respect of the Offer.

Some of these events will only give rise to a right to terminate if, in the actual or reasonable opinion of the Joint Lead Manager, the event has or is likely to have a material adverse effect on the outcome, success or settlement of the Offer or is likely to lead to a Joint Lead Manager being involved in a contravention of the Corporations Act or any other applicable law, or incurring a liability under the Corporations Act or any applicable law, regulation, treaty, or certain administrative action. If this occurs, the Joint Lead Manager which terminates (or each Joint Lead Manager) will no longer

be a lead manager and it will not be obliged to conduct the Bookbuild or settle allocations under the Bookbuild.

Under the Offer Management Agreement, if a Joint Lead Manager terminates, the Joint Lead Manager must give notice in writing to IAG and each of the other Joint Lead Managers. If one or more of the Joint Lead Managers terminates, the remaining Joint Lead Managers may elect to assume the rights and obligations of the terminating Joint Lead Manager in equal proportions by providing IAG with written notice.

#### **9.11.5 Indemnity**

IAG agrees to indemnify the Joint Lead Managers and certain parties affiliated with them against all claims, demands, damages, losses, costs, expenses or liabilities incurred by them in connection with the Offer (subject to limited exclusions).

### **9.12 AMENDMENTS TO THE CPS TERMS**

To facilitate the Reinvestment Offer, certain amendments have been made to the CPS Terms under clause 14 of those terms. Those amendments have been released to ASX.

The amendments include terms permitting the payment of the Pro Rata Dividend on the Reinvested CPS.

# APPENDIX A: CAPITAL NOTES TERMS.



## 1 CAPITAL NOTES

### 1.1 Constitution under Trust Deed

Capital Notes are perpetual, convertible, subordinated debt obligations in the form of unsecured notes issued by Insurance Australia Group Limited (IAG), constituted by, and owing under, the Trust Deed. They are issued, and may be Redeemed, Converted or Resold, according to these Capital Notes Terms.

### 1.2 Form

The Capital Notes are in registered form and are issued by entry in the Register.

### 1.3 Issue Price

The Capital Notes have a denomination and issue price of A\$100 (Issue Price) and are issued fully paid.

### 1.4 CHESS

The Capital Notes will be entered into and dealt with in CHESS. For so long as the Capital Notes remain in CHESS, the rights of a person holding an interest in the Capital Notes are subject to the ASX Settlement Operating Rules but this shall not affect any term which would cause the Capital Notes to cease to be eligible for inclusion as Additional Tier 1 Capital.

### 1.5 ASX quotation

IAG must use all reasonable endeavours to ensure the Capital Notes are, and until Redeemed, Converted, Resold or Written-Off remain, quoted on ASX.

## 2 STATUS AND RANKING

### 2.1 Status and ranking

The Capital Notes constitute direct and unsecured subordinated obligations of IAG, ranking for payment of the Redemption Price in a winding-up of IAG:

- (a) in priority to Ordinary Shares;
- (b) equally among themselves and with all Equal Ranking Instruments; and
- (c) behind claims of Senior Ranking Creditors.

### 2.2 No guarantee, not policies under Insurance Act

The Capital Notes are not:

- (a) policy liabilities of any IAG or any Related Entity of IAG for the purposes of the Insurance Act;
- (b) protected policies for the purposes of the Financial Claims Scheme established under Part VC of the Insurance Act; or
- (c) guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction or by any other party.

### 2.3 Unsecured notes

The Capital Notes are unsecured notes for the purposes of section 283BH of the Corporations Act.

## 3 DISTRIBUTIONS

### 3.1 Distributions

Subject to these Capital Notes Terms, IAG will pay interest on each Capital Note in arrears on the relevant Distribution Payment Date (a **Distribution**) calculated according to the following formula:

$$\text{Distribution} = \frac{\text{Distribution Rate} \times \$100 \times N}{365}$$

where:

**Distribution Rate** (expressed as a percentage per annum) is calculated according to the following formula:

$$\text{Distribution Rate} = (\text{Bank Bill Rate} + \text{Margin}) \times (1 - T)$$

where:

**Bank Bill Rate** (expressed as a percentage per annum) means, for a Distribution Period, the rate for prime bank eligible securities having a tenor of 3 months, which is designated as the "AVG MID" on the Reuters Screen BBSW Page (or any page which replaces that page) at approximately 10:15am, Sydney time (or such other time at which such rate customarily appears on that page) on the relevant day (**Publication Time**), on the first Business Day of the Distribution Period. However, if such rate does not appear on the Reuters Screen BBSW Page (or any page which replaces that page) by 10:30am, Sydney time, on that day (or such other time that is 15 minutes after the then prevailing Publication Time), or if it does appear but IAG determines that there is an obvious error in that rate, "Bank Bill Rate" means the rate determined by IAG having regard to comparable indices then available;

**Margin** (expressed as a percentage per annum) means the margin determined under the Bookbuild;

**T** (expressed as a decimal) means the Australian corporate tax rate applicable to the franking account of IAG as at the relevant Distribution Payment Date; and

**N** means in respect of:

- (a) the first Distribution Payment Date, the number of days from (and including) the Issue Date until (but not including) the first Distribution Payment Date; and
- (b) each subsequent Distribution Payment Date, the number of days from (and including) the preceding Distribution Payment Date until (but not including) the relevant Distribution Payment Date.

### 3.2 Franking adjustments

If any Distribution is not franked to 100% under Part 3-6 of the Tax Act (or any provisions that revise or replace that Part), the Distribution will be calculated according to the following formula:

$$\text{Distribution} = \frac{D}{1 - [T \times (1 - F)]}$$

where:

**D** means the Distribution calculated under clause 3.1;

**T** has the meaning given in clause 3.1; and

**F** means the applicable Franking Rate.

### 3.3 Payment of a Distribution

Each Distribution is subject to:

- (a) IAG's absolute discretion; and
- (b) no Payment Condition existing in respect of the relevant Distribution Payment Date.

### 3.4 Distributions are non-cumulative

Distributions are non-cumulative. If all or any part of a Distribution is not paid because of clause 3.3 or because of any applicable law, IAG has no liability to pay the unpaid amount of the Distribution and Capital Note Holders have no claim or entitlement in respect of such non-payment and such non-payment does not constitute an event of default. No interest accrues on any unpaid Distributions and Capital Note Holders have no claim or entitlement in respect of interest on any unpaid Distributions.

### 3.5 Distribution Payment Dates

Subject to this clause 3, Distributions in respect of a Capital Note will be payable in arrears on the following dates (each a **Distribution Payment Date**):

- (a) each 15 March, 15 June, 15 September and 15 December commencing on 15 March 2017 until (but not including) the date on which a Redemption or Conversion of that Capital Note occurs in accordance with these Capital Notes Terms; and
- (b) each date on which an Exchange of that Capital Note occurs, other than a Conversion on a Trigger Event Date, in each case in accordance with these Capital Notes Terms.

If a Distribution Payment Date is a day which is not a Business Day, then the Distribution Payment Date will be the next day which is a Business Day.

### 3.6 Record Dates

A Distribution is only payable on a Distribution Payment Date to those persons registered as Capital Note Holders on the Record Date for that Distribution.

### 3.7 Restrictions in the case of non-payment

If for any reason a Distribution has not been paid in full on a Distribution Payment Date (the **Relevant Distribution Payment Date**), IAG must not, without approval of a Special Resolution, until and including the next Distribution Payment Date:

- (a) declare or determine to pay or pay an Ordinary Share Dividend; or
- (b) undertake any Buy-Back or Capital Reduction, unless the Distribution is paid in full within 3 Business Days of the Relevant Distribution Payment Date.

### 3.8 Exclusions from restrictions in case of non-payment

The restrictions in clause 3.7 do not apply to:

- (a) Buy-Backs or Capital Reductions in connection with any employment contract, employee share scheme,

performance rights plan, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants of IAG or any Controlled Entity; or

- (b) the payment of an Ordinary Share Dividend or completion of a Buy-Back or Capital Reduction which IAG had become legally obliged to pay or complete at the time that the Distribution was not paid.

Nothing in these Capital Notes Terms prohibits IAG or a Controlled Entity from purchasing IAG Shares (or an interest therein) in connection with transactions for the account of customers of IAG or customers of its Controlled Entities or in connection with the distribution or trading of IAG Shares in the ordinary course of business. This includes (for the avoidance of doubt and without affecting the foregoing) any acquisition resulting from acting as trustee for another person where neither IAG nor any Controlled Entity has a beneficial interest in the trust (other than a beneficial interest that arises from a security given for the purposes of a transaction entered into in the ordinary course of business).

## 4 MANDATORY CONVERSION

### 4.1 Mandatory Conversion

Subject to clause 5, clause 6 and clause 7, on the Mandatory Conversion Date IAG must Convert all (but not some) Capital Notes on issue at that date into Ordinary Shares in accordance with clause 8 and this clause 4.

### 4.2 Mandatory Conversion Date

The **Mandatory Conversion Date** will be the earlier of:

- (a) 16 June 2025 (the **Scheduled Mandatory Conversion Date**); and
- (b) the first Distribution Payment Date after the Scheduled Mandatory Conversion Date (a **Subsequent Mandatory Conversion Date**),

(each a **Relevant Date**) on which the Mandatory Conversion Conditions are satisfied.

### 4.3 Mandatory Conversion Conditions

The Mandatory Conversion Conditions for each Relevant Date are:

- (a) the VWAP on the 25th Business Day immediately preceding (but not including) the Relevant Date (the **First Test Date**, provided that if no trading in Ordinary Shares took place on that date, the First Test Date is the first Business Day before the 25th Business Day immediately preceding (but not including) the Relevant Date on which trading in Ordinary Shares took place) is greater than the First Test Date Percentage of the Issue Date VWAP (the **First Mandatory Conversion Condition**);



- (b) the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Relevant Date (the **Second Test Period**) is greater than the Conversion Test Date Percentage of the Issue Date VWAP (the **Second Mandatory Conversion Condition**); and
- (c) no Delisting Event applies in respect of the Relevant Date (the **Third Mandatory Conversion Condition** and together with the First Mandatory Conversion Condition and the Second Mandatory Conversion Condition, the **Mandatory Conversion Conditions**).

In this clause 4.3:

**Conversion Test Date Percentage** =  $101.01\% \times \text{Relevant Percentage}$

**First Test Date Percentage** =  $115\% \times \text{Relevant Percentage}$

#### 4.4 Non-Conversion Notices

If:

- (a) the First Mandatory Conversion Condition is not satisfied in relation to a Relevant Date, IAG will give notice to the Trustee and Capital Note Holders between the 25th and the 21st Business Day before the Relevant Date; or
- (b) the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition is not satisfied in relation to a Relevant Date, IAG will give notice to the Trustee and Capital Note Holders on or as soon as practicable after the Relevant Date,

(each such notice a **Non-Conversion Notice**) that Mandatory Conversion will not (or, as the case may be, did not) occur on the Relevant Date.

## 5 OPTIONAL EXCHANGE BY IAG

### 5.1 Optional Exchange by IAG

IAG may, with APRA's prior written approval, by notice to the Trustee and Capital Note Holders (an **Exchange Notice**) elect:

- (a) to Exchange all or some Capital Notes on an Exchange Date following the occurrence of a Tax Event or a Regulatory Event;
- (b) to Exchange all or some Capital Notes on the Optional Exchange Date; or
- (c) to Convert all (but not some only) Capital Notes on an Exchange Date following the occurrence of a Potential Acquisition Event.

An Exchange Notice under this clause 5:

- (i) cannot be given in the period of 20 Business Days preceding (and not including) the Mandatory Conversion Date where the First Mandatory Conversion Condition has been met in respect of that Mandatory Conversion Date; and

- (ii) once given is irrevocable.

### 5.2 Contents of Exchange Notice

An Exchange Notice must specify:

- (a) where Exchange is on account of a Tax Event, Regulatory Event or Potential Acquisition Event, the details of the Tax Event, Regulatory Event or Potential Acquisition Event, to which the Exchange Notice relates;
- (b) the date on which Exchange is to occur (the **Exchange Date**), which:
- (i) in the case of Exchange on account of a Tax Event or a Regulatory Event, will be the last Business Day of the month following the month in which the Exchange Notice was given by IAG unless IAG determines an earlier Exchange Date having regard to the best interests of Capital Note Holders as a whole and the relevant event; or
- (ii) in the case of an Exchange on the Optional Exchange Date, is that date, which date must fall:
- (A) no earlier than:
- (aa) 25 Business Days, where the Exchange Method elected is, or includes, Conversion; or
- (ab) 15 Business Days, where the Exchange Method is Redemption or Resale, and
- (B) in any case no later than 50 Business Days, after the date on which the Exchange Notice is given;
- (iii) in the case of a Potential Acquisition Event, is the Business Day prior to the date reasonably determined by IAG to be the last date on which holders of Ordinary Shares can participate in the bid or scheme concerned or such other earlier date as IAG may reasonably determine having regard to the timing for implementation of the bid or scheme concerned, or such later date as APRA may require;
- (c) the Exchange Method in accordance with clause 5.3;
- (d) if less than all outstanding Capital Notes are subject to Exchange, which Capital Notes are subject to Exchange;
- (e) whether any Distribution will be paid on the Exchange Date; and
- (f) if the Exchange Notice specifies that any Capital Notes are to be Resold, the identity of the Nominated Purchaser or Nominated Purchasers for that Resale.

### 5.3 Exchange Method

- (a) If IAG elects to Exchange Capital Notes in accordance with clause 5.1, it must, subject to clause 5.3(b) and clause 5.4 and subject to APRA's prior written approval, elect which of the following (or which combination of the following) it intends to do in respect of Capital Notes (the **Exchange Method**):



- (i) Convert Capital Notes into Ordinary Shares in accordance with clause 8;
- (ii) Redeem Capital Notes in accordance with clause 9; or
- (iii) Resell Capital Notes in accordance with clause 10.

*Capital Note Holders should not assume that APRA's approval will be given for any Exchange of Capital Notes under the Capital Notes Terms.*

- (b) The Exchange Method must not be Redemption:
  - (i) in the case of a Potential Acquisition Event; and
  - (ii) in the case of a Tax Event, Regulatory Event or Optional Exchange Date, unless either:
    - (A) the Capital Notes the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality and the replacement of the Capital Notes is done under conditions that are sustainable for IAG's income capacity; or
    - (B) APRA is satisfied that, having regard to the capital position of the IAG Level 2 Insurance Group, IAG does not have to replace the Capital Notes the subject of the Redemption.
- (c) If IAG issues an Exchange Notice to Exchange only some Capital Notes, subject to clause 5.3(d) IAG must endeavour to treat Capital Note Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels and other logistical considerations.
- (d) In selecting a combination of Exchange Methods where all or some Capital Notes are being Exchanged IAG may, subject to this clause 5:
  - (i) select either Exchange Method or a combination of Exchange Methods to apply to the Capital Notes held by a Capital Note Holder; and
  - (ii) a different Exchange Method or a combination of Exchange Methods to apply to Capital Notes held by different Capital Note Holders,
 but nothing in this clause entitles a Capital Note Holder to determine the Exchange Method.

#### 5.4 Restrictions on election by IAG of Conversion as Exchange Method

IAG may not elect Conversion as the Exchange Method in respect of an Exchange under this clause 5 if:

- (a) on the second Business Day before the date on which an Exchange Notice is to be sent by IAG (or, if trading in Ordinary Shares did not occur on that date, the last Business Day prior to that date on which trading in Ordinary Shares occurred) (the **Non-Conversion Test Date**) the VWAP on that date is less than or equal to the First Test Date Percentage of the Issue Date VWAP (the **First Optional Conversion Restriction**); or

- (b) a Delisting Event applies in respect of the Non-Conversion Test Date (the **Second Optional Conversion Restriction** and together with the First Optional Conversion Restriction, the **Optional Conversion Restrictions**).

#### 5.5 Conditions to Conversion occurring once elected by IAG

If IAG has given an Exchange Notice in which it has elected Conversion as the Exchange Method but, if the Exchange Date were a Relevant Date for the purposes of clause 4, either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date (tested on the basis that the Relevant Percentage is 20%), then, notwithstanding any other provision of these Capital Notes Terms:

- (a) the Exchange Date will be deferred until the first Distribution Payment Date on which the Mandatory Conversion Conditions would be satisfied if that Distribution Payment Date were a Relevant Date for the purposes of clause 4 (the **Deferred Conversion Date**);
- (b) IAG must Convert the Capital Notes on the Deferred Conversion Date (unless the Capital Notes are Exchanged earlier in accordance with these Capital Notes Terms); and
- (c) until the Deferred Conversion Date, all rights attaching to the Capital Notes will continue as if the Exchange Notice had not been given.

IAG will notify the Trustee and Capital Note Holders on or as soon as practicable after an Exchange Date in respect of which this clause 5.5 applies that Conversion did not occur on that Exchange Date (a **Deferred Conversion Notice**).

## 6 NON-VIABILITY CONVERSION

### 6.1 Non-Viability Trigger Event

A **Non-Viability Trigger Event** means the earlier of:

- (a) the issuance to IAG of a written determination from APRA that conversion or write-off of Relevant Securities is necessary because, without it, APRA considers that IAG would become non-viable; or
- (b) a determination by APRA, notified to IAG in writing, that without a public sector injection of capital, or equivalent support, IAG would become non-viable, (such determination a **Non-Viability Determination**).

### 6.2 Conversion on Trigger Event Date

If a Non-Viability Trigger Event occurs:

- (a) on the Trigger Event Date, subject only to clause 6.4, such number of Capital Notes will immediately Convert as is required by the Non-Viability Determination, provided that:
  - (i) where such Non-Viability Determination is made on the grounds that, without a public sector injection of capital or equivalent support, IAG

- would become non-viable, all Capital Notes must be Converted; and
- (ii) where clause 6.2(a)(i) does not apply and such Non-Viability Determination does not require all Relevant Securities to be converted or written-off, such number of Capital Notes shall Convert as is sufficient (determined by IAG in accordance with clause 6.2(b)) to satisfy APRA that IAG is viable without further conversion or write-off;
- (b) in determining the number of Capital Notes which must be Converted in accordance with this clause, IAG will:
- (i) first, convert into Ordinary Shares or write-off Relevant Securities whose terms require or permit them to be converted into Ordinary Shares or written-off before Conversion of Capital Notes; and
- (ii) secondly, if conversion into Ordinary Shares or write-off of the Relevant Securities described in clause 6.2(b)(i) is not sufficient to satisfy the requirements of clause 6.2(a):
- (A) Convert Capital Notes; and
- (B) convert into Ordinary Shares or write-off other Relevant Securities,
- in each case on an approximately pro-rata basis or in a manner that is otherwise, in the opinion of IAG, fair and reasonable (subject to such adjustment as IAG may determine to take into account the effect on marketable parcels and the need to round to whole numbers the number of Ordinary Shares and any Capital Notes or other Relevant Securities remaining on issue) and, for the purposes of this clause 6.2(b)(ii), where the specified currency of the principal amount of Relevant Securities is not the same for all Relevant Securities, IAG may treat them as if converted into a single currency of IAG's choice at such rate of exchange for each such currency as, in each case, IAG in good faith considers reasonable,

provided that such determination does not impede the immediate Conversion of the relevant number of Capital Notes;

- (c) on the Trigger Event Date IAG must determine the Capital Note Holders whose Capital Notes will be Converted at the time on that date that the Conversion is to take effect and in making that determination may make any decisions with respect to the identity of the Capital Note Holders at that time and date as may be necessary or desirable to ensure Conversion occurs immediately in an orderly manner, including disregarding any transfers of Capital Notes that have not been settled or registered at that time and provided that such determination does not impede

the immediate Conversion of the relevant number of Capital Notes;

- (d) IAG must give notice of that event (a **Trigger Event Notice**) as soon as practicable to the Trustee and Capital Note Holders, which notice must specify:
- (i) the Trigger Event Date;
- (ii) the number of Capital Notes Converted; and
- (iii) the relevant number of other Relevant Securities converted or written-off;
- (e) none of the following events shall prevent, impede or delay the Conversion of Capital Notes as required by clause 6.2(a):
- (i) any failure or delay in the conversion or write-off of other Relevant Securities;
- (ii) any failure or delay in giving a Trigger Event Notice;
- (iii) any failure or delay in quotation of Ordinary Shares to be issued on Conversion;
- (iv) any decision as to the identity of Capital Note Holders whose Capital Notes are to be Converted; and
- (v) any requirement to select the number of Capital Notes to be Converted in accordance with clause 6.2(b)(ii) or 6.2(c); and
- (f) from the Trigger Event Date, subject to clause 6.4 and clause 12.1, IAG, the Trustee and the Registrar shall treat the Capital Note Holder of any Capital Note which is required to be Converted as the holder of the relevant number of Ordinary Shares and will take all such steps, including updating any register, required to record the Conversion.

A Non-Viability Determination takes effect, and IAG must perform the obligations in respect of the determination, immediately on the day it is received by IAG, whether or not such day is a Business Day.

### 6.3 Priority of Conversion obligations

- (a) Conversion on account of the occurrence of a Non-Viability Trigger Event is not subject to the matters described in clause 4.3 as Mandatory Conversion Conditions.
- (b) A Conversion required on account of a Non-Viability Trigger Event takes place on the date, and in the manner, required by clause 6.2, notwithstanding anything in clauses 4, 5 or 7.
- (c) Where Capital Notes are required to be Converted, if Conversion has not been effected within 5 Business Days after the relevant Trigger Event Date for any reason (including an Inability Event), Conversion of those Capital Notes on account of the Non-Viability Trigger Event will not occur and those Capital Notes shall be Written-Off in accordance with clause 6.4 and the provisions of clauses 6.2(b), 6.2(c) and 6.2(d) shall apply in respect of that Write-Off and those

Capital Notes as if each reference in those clauses to “Conversion” or “Convert” were a reference to “Write-Off”.

#### 6.4 Write-Off

Notwithstanding clause 17.1, if Conversion has not been effected within 5 Business Days after the relevant Trigger Event Date for any reason (including an Inability Event), each Capital Note which, but for clause 6.3(c) and this clause 6.4, would be Converted, will be Written-Off with effect on and from the Trigger Event Date.

In this clause 6.4, **Written-Off** means that, in respect of a Capital Note and a Trigger Event Date:

- (a) the Capital Note will not be Converted on that date and will not be Converted, Redeemed or Resold under these Capital Notes Terms on any subsequent date; and
- (b) the relevant Capital Note Holders’ rights (including to payment of Distributions and Redemption Price) in relation to such Capital Note are immediately and irrevocably terminated and written-off,

and **Write-Off** has a corresponding meaning.

## 7 EARLY CONVERSION ON ACQUISITION EVENT

### 7.1 Notice of Acquisition Event

IAG must notify the Trustee and Capital Note Holders of the occurrence of an Acquisition Event as soon as practicable after becoming aware of that event (an **Acquisition Event Notice**).

### 7.2 Conversion on occurrence of Acquisition Event

If an Acquisition Event occurs, IAG must give notice to the Trustee and Capital Note Holders (an **Acquisition Conversion Notice**) and Convert all (but not some only) Capital Notes on the Acquisition Conversion Date in accordance with this clause 7 and clause 8 or clause 9 (as the case may be).

### 7.3 Contents of Acquisition Conversion Notice

An Acquisition Conversion Notice must specify:

- (a) the details of the Acquisition Event to which the Acquisition Conversion Notice relates;
- (b) the date on which Conversion is to occur (the **Acquisition Conversion Date**), which must be the Business Day prior to the date reasonably determined by IAG to be the last date on which holders of Ordinary Shares can participate in the bid or scheme concerned or such other earlier date as IAG may reasonably determine having regard to the timing for implementation of the bid or scheme concerned, or such later date as APRA may require; and
- (c) whether any Distribution will be paid on the Acquisition Conversion Date.

### 7.4 Where Acquisition Conversion Notice not required

Notwithstanding any other provision of clause 7.2 or clause 7.3, if:

- (a) on the second Business Day before the date on which an Acquisition Conversion Notice is to be sent by IAG (or, if trading in Ordinary Shares did not occur on that date, the last Business Day prior to that date on which trading in Ordinary Shares occurred) (the **Acquisition Non-Conversion Test Date**) the VWAP on that date is less than or equal to the First Test Date Percentage of the Issue Date VWAP (the **First Acquisition Conversion Restriction**); or
- (b) a Delisting Event applies in respect of the Acquisition Non-Conversion Test Date (the **Second Acquisition Conversion Restriction** and together with the First Acquisition Conversion Restriction, the **Acquisition Conversion Restrictions**),

IAG is not required to give an Acquisition Conversion Notice and the provisions of clause 7.5 will apply.

### 7.5 Deferred Conversion on Acquisition Event

If clause 7.4 applies or, if the Acquisition Conversion Date were a Relevant Date for the purposes of clause 4, the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date (tested on the basis that the Relevant Percentage is 20%), then, notwithstanding any other provision of these Capital Notes Terms (but without limitation to the operation of clause 6.3):

- (a) the Acquisition Conversion Notice, if given, is taken to be revoked and Conversion will not occur on the Acquisition Conversion Date specified in the Acquisition Conversion Notice;
- (b) IAG will notify the Trustee and Capital Note Holders as soon as practicable that Conversion will not (or, as the case may be, did not) occur (a **Deferred Acquisition Conversion Notice**); and
- (c) IAG must, unless clause 7.4 then applies, give an Acquisition Conversion Notice (or, as the case may be, a new Acquisition Conversion Notice) on or before the 25th Business Day prior to the immediately succeeding Distribution Payment Date which is at least 25 Business Days after the date on which the Deferred Acquisition Conversion Notice was given.

The Acquisition Conversion Notice given in accordance with paragraph (c) above must otherwise comply with clause 7.3.

If this clause 7.5 applies but:

- (i) clause 7.4 applies in respect of the Distribution Payment Date such that no Acquisition Conversion Notice (or, as the case may be, no new Acquisition Conversion Notice) is given under this clause 7.5; or

- (ii) an Acquisition Conversion Notice (or, as the case may be, a new Acquisition Conversion Notice) is given under this clause 7.5 but, if the Acquisition Conversion Date specified in the Acquisition Conversion Notice were a Relevant Date for the purpose of clause 4, either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date (tested on the basis that the Relevant Percentage is 20%),

then this clause 7.5 will be reapplied in respect of each subsequent Distribution Payment Date until a Conversion occurs.

## 8 CONVERSION MECHANICS

### 8.1 Conversion

If IAG elects to Convert Capital Notes or must Convert Capital Notes in accordance with these Capital Notes Terms, subject to the remainder of this clause 8, the following provisions apply:

- (a) IAG will allot and issue on the Mandatory Conversion Date, the Trigger Event Date, the Exchange Date or the Acquisition Conversion Date (as the case may be) a number of Ordinary Shares in respect of each Capital Note held by the Capital Note Holder equal to the Conversion Number, where the **Conversion Number** is a number calculated according to the following formula (subject always to the Conversion Number being no more than the Maximum Conversion Number):

$$\text{Conversion Number} = \frac{\text{Issue Price}}{99\% \times \text{VWAP}}$$

where:

**VWAP** (expressed in dollars and cents) means the VWAP during the VWAP Period,

and where the **Maximum Conversion Number** means a number calculated according to the following formula:

$$\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{(\text{Issue Date VWAP} \times \text{Relevant Percentage})}$$

where:

**Relevant Percentage** means:

- (i) if Conversion is occurring on a Mandatory Conversion Date, 50%; and
- (ii) if Conversion is occurring at any other time, 20%;
- (b) each Capital Note Holder's rights (including to payment of Redemption Price and Distributions other than the Distribution, if any, payable on a date (other than a Trigger Event Date) on which Conversion is required to occur) in relation to each Capital Note that is being Converted will be immediately and irrevocably terminated in full for an amount equal to the Issue Price of that Capital Note and IAG will apply that amount by way of payment for subscription for

the Ordinary Shares to be allotted and issued under clause 8.1(a). Each Capital Note Holder is taken to have irrevocably directed that any amount payable under this clause 8.1 is to be applied as provided for in this clause 8.1 and no Capital Note Holder has any right to payment in any other way;

- (c) if the total number of Ordinary Shares to be allotted and issued to a Capital Note Holder in respect of that Capital Note Holder's aggregate holding of Capital Notes upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded; and
- (d) the rights attaching to Ordinary Shares issued as a result of Conversion do not take effect until 5:00pm (Sydney time) on the Mandatory Conversion Date, the Exchange Date or the Acquisition Conversion Date (as the case may be) or, in the case of Conversion on the Trigger Event Date, the time at which such Conversion occurs on that date.

### 8.2 Adjustments to VWAP generally

For the purposes of calculating the VWAP in these Capital Notes Terms:

- (a) where, on some or all of the Business Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and Capital Notes will Convert into Ordinary Shares after the date those Ordinary Shares no longer carry that dividend or any other distribution or entitlement, then the VWAP on the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (**Cum Value**) equal to:
- (i) (in case of a dividend or other distribution), the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount referable to the franking credit that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;
- (ii) (in the case of any entitlement that is not a dividend or other distribution for which an adjustment is made under clause 8.2(a)(i) which is traded on ASX on any of those Business Days), the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Business Days on which those entitlements were traded; or
- (iii) (in the case of any other entitlement which is not traded on ASX during the VWAP Period), the value of the entitlement as reasonably determined by IAG; and

- (b) where, on some or all of the Business Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and Capital Notes will Convert into Ordinary Shares which would be entitled to receive the relevant dividend or other distribution or entitlement, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value.

### 8.3 Adjustments to VWAP for divisions and similar transactions

- (a) Where during the relevant VWAP Period there is a change in the number of the Ordinary Shares on issue as a result of a division, consolidation or reclassification of IAG's share capital (not involving any cash payment or other distribution (or consideration) to or by Ordinary Shareholders) (a **Reorganisation**), in calculating the VWAP for that VWAP Period the daily VWAP applicable on each day in the relevant VWAP Period which falls before the date on which trading in Ordinary Shares is conducted on a post Reorganisation basis shall be adjusted by the following formula:

$$\frac{A}{B}$$

where:

**A** means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

**B** means the aggregate number of Ordinary Shares immediately after the Reorganisation.

- (b) Any adjustment made by IAG in accordance with clause 8.3(a) will be effective and binding on Capital Note Holders under these Capital Notes Terms and these Capital Notes Terms will be construed accordingly. Any such adjustment must be promptly notified to all Capital Note Holders.

### 8.4 Adjustments to Issue Date VWAP generally

For the purposes of determining the Issue Date VWAP, adjustments to VWAP will be made in accordance with clause 8.2 and clause 8.3 during the VWAP Period for the Issue Date VWAP. On and from the Issue Date, adjustments to the Issue Date VWAP:

- (a) may be made in accordance with clauses 8.5 to 8.7 (inclusive); and
- (b) if so made, will correspondingly affect the application of the Mandatory Conversion Conditions, the Optional Conversion Restrictions and the Acquisition Conversion Restrictions, and cause an adjustment to the Maximum Conversion Number.

### 8.5 Adjustments to Issue Date VWAP for bonus issues

- (a) Subject to clauses 8.5(b) and 8.5(c), if IAG makes a pro rata bonus issue of Ordinary Shares to holders of Ordinary Shares generally, the Issue Date VWAP will be adjusted immediately in accordance with the following formula:

$$V = V_0 \times \frac{RD}{RD + RN}$$

where:

**V** means the Issue Date VWAP applying immediately after the application of this formula;

**V<sub>0</sub>** means the Issue Date VWAP applying immediately prior to the application of this formula;

**RN** means the number of Ordinary Shares issued pursuant to the bonus issue; and

**RD** means the number of Ordinary Shares on issue immediately prior to the allotment of new Ordinary Shares pursuant to the bonus issue.

- (b) For the avoidance of doubt, clause 8.5(a) does not apply to Ordinary Shares issued as part of a bonus share plan, employee or executive share plan, executive option plan, share top up plan, share purchase plan or a dividend reinvestment plan.
- (c) For the purpose of clause 8.5(a), an issue will be regarded as a pro rata issue notwithstanding that IAG does not make offers to some or all holders of Ordinary Shares with registered addresses outside Australia, provided that in so doing IAG is not in contravention of the ASX Listing Rules.
- (d) No adjustments to the Issue Date VWAP will be made under this clause 8.5 for any offer of Ordinary Shares not covered by clause 8.5(a), including a rights issue or other essentially pro rata issue.
- (e) The fact that no adjustment is made for an issue of Ordinary Shares except as covered by clause 8.5(a) shall not in any way restrict IAG from issuing Ordinary Shares at any time on such terms as it sees fit nor be taken to constitute a modification or variation of rights or privileges of Capital Note Holders or otherwise requiring any consent or concurrence of any Capital Note Holders.

### 8.6 Adjustment to Issue Date VWAP for divisions and similar transactions

- (a) If at any time after the Issue Date there is a change in the number of Ordinary Shares on issue as a result of a Reorganisation, IAG shall adjust the Issue Date VWAP by multiplying the Issue Date VWAP applicable on the Business Day immediately before the date of any such Reorganisation by the following formula:

$$\frac{A}{B}$$



where:

**A** means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

**B** means the aggregate number of Ordinary Shares immediately after the Reorganisation.

- (b) Any adjustment made by IAG in accordance with clause 8.6(a) will be effective and binding on Capital Note Holders under these Capital Notes Terms and these Capital Notes Terms will be construed accordingly.
- (c) Any such adjustment must be promptly notified to all Capital Note Holders.
- (d) Each Capital Note Holder acknowledges that IAG may consolidate, divide or reclassify securities so that there is a lesser or greater number of Ordinary Shares at any time in its absolute discretion without any such action constituting a modification or variation of rights or privileges of Capital Note Holders or otherwise requiring any consent or concurrence of any Capital Note Holders.

#### **8.7 No adjustment to Issue Date VWAP in certain circumstances**

Despite the provisions of clauses 8.5 and 8.6, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than one percent of the Issue Date VWAP then in effect.

#### **8.8 Announcement of adjustments**

IAG will notify the Trustee and Capital Note Holders (an **Adjustment Notice**) of any adjustment to the Issue Date VWAP under this clause 8 within 10 Business Days of IAG determining the adjustment and the adjustment set out in the announcement will be final and binding.

#### **8.9 Ordinary Shares**

Each Ordinary Share issued upon Conversion ranks pari passu with all other fully paid Ordinary Shares.

#### **8.10 Listing of Ordinary Shares issued on Conversion**

IAG shall use all reasonable endeavours to list the Ordinary Shares issued upon Conversion of the Capital Notes on ASX.

#### **8.11 Foreign Capital Note Holders**

Where Capital Notes held by a Foreign Capital Note Holder are to be Converted, unless IAG is satisfied that the laws of the Foreign Capital Note Holder's country of residence permit the issue of Ordinary Shares to the Foreign Capital Note Holder (but as to which IAG is not bound to enquire), either unconditionally or after compliance with conditions which IAG in its absolute discretion regards as acceptable and not unduly onerous, the Ordinary Shares which the Foreign Capital Note Holder is obliged to accept will, subject to clause 6.4, be issued to a nominee (which may not be IAG or a Related Entity of IAG) who will sell those Ordinary Shares and pay a cash amount equal to the

net proceeds received, after deducting any applicable brokerage, stamp duty and other taxes and charges, to the Foreign Capital Note Holder.

#### **8.12 FATCA withholding**

Where a FATCA Withholding is required to be made in respect of Ordinary Shares issued on Conversion of Capital Notes, or where IAG has reasonable grounds to suspect that a FATCA Withholding would be required to be made in respect of Ordinary Shares issued on Conversion of Capital Notes, the Ordinary Shares which the Capital Note Holder is obliged to accept will be issued to the Capital Note Holder of the Capital Note only to the extent (if at all) that the issue is net of FATCA Withholding and IAG will issue the balance of the Ordinary Shares (if any) to a nominee (which may not be IAG or a Related Entity of IAG) who will sell those Ordinary Shares, deal with any proceeds of their disposal in accordance with FATCA and pay a cash amount equal to the net proceeds received, after deducting any applicable brokerage, stamp duty and other taxes and charges, net of any FATCA Withholding, to the Capital Note Holder.

### **9 REDEMPTION MECHANICS**

#### **9.1 Redemption mechanics to apply to Redemption**

If, subject to APRA's prior written approval and compliance with clause 5.3(b), IAG elects to Redeem Capital Notes in accordance with these Capital Notes Terms, the provisions of this clause 9 apply to that Redemption.

*Capital Note Holders should not assume that APRA's approval will be given for any Redemption of Capital Notes under the Capital Notes Terms.*

#### **9.2 Redemption**

- (a) Capital Notes will be Redeemed by payment on the Exchange Date of an amount equal to the Issue Price (the **Redemption Price**) to the Capital Note Holder.
- (b) Redemption may occur even if IAG, in its absolute discretion, does not pay a Distribution for the final (or any other) Distribution Period.

#### **9.3 Effect of Redemption on Capital Note Holders**

On the Exchange Date the only right Capital Note Holders will have in respect of Capital Notes will be to obtain the Redemption Price payable in accordance with these Capital Notes Terms and upon payment of the Redemption Price, all other rights conferred, or restrictions imposed, by Capital Notes will no longer have effect.

### **10 RESALE MECHANICS**

#### **10.1 Resale mechanics to apply to Resale**

If, subject to APRA's prior written approval, IAG elects to Resell Capital Notes in accordance with these Capital Notes Terms, the provisions of this clause 10 apply to that Resale.

## 10.2 Appointment of Nominated Purchaser

- (a) IAG must appoint one or more Nominated Purchasers for the Resale on terms agreed between IAG and the Nominated Purchasers. If IAG appoints more than one Nominated Purchaser for a Resale, all or any of the Capital Notes held by a Capital Note Holder which are being Resold may be purchased by one or a combination of the Nominated Purchasers, as determined by IAG, for the Resale Price.
- (b) The obligation of a Nominated Purchaser to pay the Resale Price on the Exchange Date may be subject to such conditions as IAG may reasonably determine.

## 10.3 Identity of Nominated Purchasers

IAG may not appoint a person as a Nominated Purchaser unless that person:

- (a) has agreed to acquire each Capital Note the subject of the Resale from each relevant Capital Note Holder for the Resale Price on the Exchange Date (which agreement may be on such terms and subject to such conditions as IAG reasonably determines);
- (b) has a long-term counterparty credit rating from one of Standard & Poor's, Moody's or Fitch of not less than investment grade, and
- (c) is not IAG or a Related Entity of IAG.

## 10.4 Irrevocable offer to sell Capital Notes

On the Exchange Date, each relevant Capital Note Holder is taken irrevocably to offer to sell the Capital Notes the subject of a Resale to the Nominated Purchaser or Nominated Purchasers on the Exchange Date for the Resale Price.

## 10.5 Effect of resale

Subject to payment by the Nominated Purchaser of the Resale Price to the relevant Capital Note Holders, on the Exchange Date all right, title and interest in the Capital Notes the subject of the Resale (excluding the right to any Distribution payable on that date) will be transferred to the Nominated Purchaser free from Encumbrances.

## 10.6 Effect of failure by Nominated Purchaser or Nominated Purchasers to pay

If a Nominated Purchaser does not pay the Resale Price to the relevant Capital Note Holders on the Exchange Date (a **Defaulting Nominated Purchaser**) (whether as a result of a condition to purchase not being satisfied or otherwise):

- (a) the Exchange Notice as it relates to the Defaulting Nominated Purchaser will be void;
- (b) Capital Notes will not be transferred to the Defaulting Nominated Purchaser on the Exchange Date; and
- (c) Capital Notes Holders will continue to hold the Capital Notes referable to the Defaulting Nominated Purchaser until they are otherwise Redeemed, Converted or Resold in accordance with these Capital Notes Terms.

## 10.7 Payment of resale price

Clause 16 applies to payment of the Resale Price as if a reference in that clause to the Redemption Price includes a reference to the Resale Price.

# 11 CAPITAL NOTES GENERAL RIGHTS

## 11.1 Power of attorney

- (a) Each Capital Note Holder appoints each of IAG, its officers and any External Administrator of IAG (each an **Attorney**) severally to be the attorney of the Capital Note Holder with power in the name and on behalf of the Capital Note Holder to sign all documents and transfers and do any other thing as may in the Attorney's opinion be necessary or desirable to be done in order for the Capital Note Holder to observe or perform the Capital Note Holder's obligations under these Capital Notes Terms including, but not limited to, accepting any buy-back offer, effecting any transfers of Capital Notes or making any entry in the Register or exercising any voting power in relation to any consent or approval required for Conversion, Redemption or Resale.
- (b) The power of attorney given in this clause 11.1 is given for valuable consideration and to secure the performance by the Capital Note Holder of the Capital Note Holder's obligations under these Capital Notes Terms and is irrevocable.

## 11.2 Capital Note Holder acknowledgments

Each Capital Note Holder irrevocably:

- (a) upon Conversion of a Capital Note in accordance with clause 8, consents to becoming a member of IAG and agrees to be bound by the Constitution, in each case in respect of the Ordinary Shares issued on Conversion;
- (b) acknowledges and agrees that it is obliged to accept Ordinary Shares upon a Conversion notwithstanding anything that might otherwise affect a Conversion of Capital Notes including:
  - (i) any change in the financial position of IAG or any Related Entity of IAG since the Issue Date;
  - (ii) any disruption to the market or potential market for the Ordinary Shares or to capital markets generally; or
  - (iii) any breach by IAG of any obligation in connection with Capital Notes;
- (c) without limiting IAG's obligations under clause 8.10, acknowledges and agrees that Ordinary Shares issued on Conversion in connection with a Non-Viability Trigger Event may not be quoted on ASX at the time of issue, or at all;



- (d) acknowledges and agrees that:
- (i) where clause 6.2 applies, there are no other conditions to a Non-Viability Conversion occurring as and when provided in clauses 6.1 to 6.3 (inclusive);
  - (ii) the only conditions to a Mandatory Conversion are the Mandatory Conversion Conditions;
  - (iii) the only conditions to a Conversion on account of an Exchange under clause 5 or clause 7 are the conditions expressly applicable to such Conversion as provided in clauses 5 and 7 of these Capital Notes Terms and no other conditions or events will affect Conversion; and
  - (iv) clause 6.4 is a fundamental term of these Capital Notes Terms and, where clause 6.4 applies, no other conditions or events will affect the operation of that clause;
- (e) agrees to provide to IAG any information necessary to give effect to a Conversion and, if applicable, to surrender any certificate relating to the Capital Note on the occurrence of the Conversion;
- (f) acknowledges and agrees that IAG may from time to time, without the consent of any Capital Note Holder:
- (i) issue any securities ranking equally with the Capital Notes (on the same terms or otherwise) or ranking in priority or junior to the Capital Notes;
  - (ii) redeem, buy back, return capital on or convert any securities other than Capital Notes at any time except where expressly prevented from doing so under clause 3.7;
  - (iii) subject to APRA's prior written consent, purchase or procure the purchase of Capital Notes from Capital Note Holders at any time and at any price. Any Capital Note purchased by or on behalf of IAG shall be cancelled; and
  - (iv) incur or guarantee any indebtedness upon such terms as it may think fit in its sole discretion; and
- (g) acknowledges and agrees that:
- (i) a Capital Note Holder has no right to request an Exchange;
  - (ii) a Capital Note Holder has no right to apply for IAG to be wound up, or placed in administration, or to cause a receiver, or a receiver and manager, to be appointed in respect of IAG merely on the grounds that IAG does not pay a Distribution when scheduled in respect of Capital Notes;
  - (iii) these Capital Notes Terms contain no events of default. Accordingly (but without limitation) failure to pay in full, for any reason, a Distribution on the scheduled Distribution Payment Date will not constitute an event of default; and

- (iv) a Capital Note Holder has no remedies on account of a failure by IAG to issue Ordinary Shares on Conversion in accordance with clause 8 other than (and subject always to clause 6.3 and clause 6.4) to seek specific performance of the obligation to issue the Ordinary Shares.

## **12 VOTING RIGHTS AND MEETINGS**

### **12.1 No voting rights**

Prior to Conversion, Capital Note Holders will not be entitled to vote at or attend any general meeting of IAG.

### **12.2 No other rights**

The Capital Notes confer no rights on a Capital Note Holder:

- (a) to subscribe for new securities or to participate in any bonus issues of securities of IAG; or
- (b) to otherwise participate in the profits or property of IAG,

except as expressly set out in these Capital Notes Terms or the Trust Deed.

### **12.3 Meetings of the Capital Note Holders**

The Trust Deed contains provisions for convening meetings of the Capital Note Holders to consider any matter affecting their interests including certain variations of these Capital Notes Terms which require the consent of the Capital Note Holders.

## **13 TAKEOVERS AND SCHEMES OF ARRANGEMENT**

If:

- (a) a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors; or
- (b) the Directors recommend a scheme of arrangement in respect of the Ordinary Shares of IAG which will result in a person other than IAG having a relevant interest in more than 50% of the Ordinary Shares,

in each case which would result in an Acquisition Event or Potential Acquisition Event then, if the Directors consider that IAG will not be permitted to elect to Convert the Capital Notes in accordance with clause 5 or clause 7 or the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition will not be satisfied in respect of the Acquisition Conversion Date in accordance with clause 7, the Directors will use all reasonable endeavours to procure that equivalent takeover offers are made to Capital Note Holders or that they are entitled to participate in the scheme of arrangement or a similar transaction.

## **14 TITLE AND TRANSFER OF CAPITAL NOTES**

### **14.1 Title**

Title to Capital Notes passes when details of the transfer are entered in the Register.

### **14.2 Effect of entries in Register**

Each entry in the Register in respect of a Capital Note constitutes:

- (a) a separate and independent acknowledgment to the relevant Capital Note Holder of the obligations of IAG to the relevant Capital Note Holder; and
- (b) conclusive evidence that the person so entered is the absolute owner of the Capital Note subject to correction for fraud or error.

### **14.3 Non-recognition of interests**

- (a) Except as required by law, IAG, the Trustee and the Registrar must treat the person whose name is entered in the Register as the Capital Note Holder of a Capital Note as the absolute owner of that Capital Note. This clause 14.3 applies whether or not payment has not been made as scheduled in respect of a Capital Note and despite any notice of ownership, trust or interest in the Capital Note.
- (b) No notice of any trust, Encumbrance or other interest in, or claim to any Capital Note will be entered in the Register.

### **14.4 Joint Capital Note Holders**

Where two or more persons are entered in the Register as the joint Capital Note Holders of a Capital Note then they are taken to hold the Capital Note as joint tenants with rights of survivorship, but the Registrar is not bound to register more than three persons as joint Capital Note Holders of any Capital Note.

### **14.5 Transfers in whole**

Capital Notes may be transferred in whole but not in part.

### **14.6 Transfer**

- (a) A Capital Note Holder may transfer a Capital Note:
  - (i) while the Capital Note is lodged in CHESS, in accordance with the ASX Settlement Operating Rules;
  - (ii) at any other time:
    - (A) by a proper transfer under any other computerised or electronic system recognised by the Corporations Act; or
    - (B) by any proper or sufficient instrument of transfer of marketable securities under applicable law.
- (b) The Registrar must register a transfer of a Capital Note to or by a person who is entitled to make or receive the transfer as a consequence of:
  - (i) death, bankruptcy, liquidation, mental incapacity or winding-up of a Capital Note Holder; or

- (ii) a vesting order by a court or other body with power to make the order on receiving the evidence that the Registrar or IAG requires.

### **14.7 Market obligations**

IAG must comply with all Applicable Regulations and any other relevant obligations imposed on it in relation to the transfer of a Capital Note.

### **14.8 IAG may request a holding lock or refuse to register a transfer**

If Capital Notes are quoted on ASX, and if permitted to do so by the ASX Listing Rules and the Corporations Act, IAG may:

- (a) request the operator of CHESS or the Registrar, as the case may be, to apply a holding lock to prevent a transfer of Capital Notes approved by and registered on the operator's electronic sub-register or Capital Notes registered on an issuer-sponsored sub-register, as the case may be; or
- (b) refuse to register a transfer of Capital Notes.

### **14.9 IAG must request a holding lock or refuse to register a transfer**

- (a) IAG must request the operator of CHESS or the Registrar, as the case may be, to apply a holding lock to prevent a transfer of Capital Notes approved by and registered on the operator's electronic sub-register or Capital Notes registered on an issuer-sponsored sub-register, as the case may be, if the Corporations Act, the ASX Listing Rules or the terms of a Restriction Agreement require IAG to do so.
- (b) IAG must refuse to register any transfer of Capital Notes if the Corporations Act, the ASX Listing Rules or the terms of a Restriction Agreement require IAG to do so, and may only refuse to register a transfer if such transfer would contravene or is forbidden by Applicable Regulation or these Capital Notes Terms.
- (c) During a breach of the ASX Listing Rules relating to Restricted Securities, or a breach of a Restriction Agreement, the Capital Note Holder of the Restricted Securities is not entitled to any interest (or other distribution on), or voting rights in respect of, the Restricted Securities.

### **14.10 Notice of holding locks and refusal to register transfer**

If, in the exercise of its rights under clauses 14.8 and 14.9, IAG requests the application of a holding lock to prevent a transfer of Capital Notes or refuses to register a transfer of Capital Notes, it must, within five Business Days after the date the holding lock is requested or the refusal to register a transfer, give written notice of the request or refusal to the Capital Note Holder, to the transferee and the broker lodging the transfer, if any. Failure to give such notice does not, however, invalidate the decision of IAG.

#### 14.11 Delivery of instrument and evidence

If an instrument is used to transfer Capital Notes, it must be delivered to the Registrar, together with such evidence (if any) as the Registrar reasonably requires to prove the title of the transferor to, or right of the transferor to transfer, the Capital Notes.

#### 14.12 Effect of transfer

Upon registration and entry of the transferee in the Register the transferor ceases to be entitled to future benefits under the Trust Deed and these Capital Notes Terms in respect of the transferred Capital Notes and the transferee becomes so entitled.

#### 14.13 Transfer of unidentified Capital Notes

Where the transferor executes a transfer of less than all Capital Notes registered in its name, and the specific Capital Notes to be transferred are not identified, the Registrar may register the transfer in respect of such of the Capital Notes registered in the name of the transferor as the Registrar thinks fit, provided the aggregate of the Issue Price of all the Capital Notes registered as having been transferred equals the aggregate of the Issue Price of all the Capital Notes expressed to be transferred in the transfer.

### 15 NOTICES

#### 15.1 Notices to Capital Note Holders

5 notice or other communication is properly given by IAG, the Trustee or the Registrar to a Capital Note Holder if it is:

- (a) in writing signed on behalf of IAG, the Trustee or the Registrar (as applicable) (by original or printed signature);
- (b) addressed to the person to whom it is to be given; and
- (c) either:
  - (i) delivered personally;
  - (ii) sent by pre-paid mail to that person's address as shown in the Register or an alternative address nominated in writing to IAG and the Registrar by the Capital Note Holder;
  - (iii) sent by fax to the fax number (if any) nominated by that person; or
  - (iv) sent by electronic message to the electronic address (if any) nominated by that person.

#### 15.2 Delivery of certain notices

Notwithstanding clause 15.1, a Non-Conversion Notice, a Deferred Conversion Notice, a Deferred Acquisition Conversion Notice, an Exchange Notice, an Acquisition Event Notice, an Acquisition Conversion Notice, a Non-Viability Trigger Event Notice, an Adjustment Notice, an IAG Details Notice, a Trustee Details Notice or a Registrar Details Notice may be given to Capital Note Holders by IAG publishing the notice on its website and announcing the publication of the notice to ASX.

#### 15.3 When notices to Capital Note Holders take effect

Notices or other communications from IAG, the Trustee or the Registrar to Capital Note Holders take effect on the day the notice or communication was delivered, sent or published on IAG's website (as applicable under clauses 15.1 and 15.2).

#### 15.4 Non-receipt of notice by a Capital Note Holder

The non-receipt of a notice or other communication by a Capital Note Holder or an accidental omission to give notice to a Capital Note Holder will not invalidate the giving of that notice either in respect of that Capital Note Holder or generally.

#### 15.5 Notices to IAG

A notice or other communication given to IAG in connection with Capital Notes must be:

- (a) in legible writing or typing and in English; and
- (b) either:
  - (i) addressed as shown below:

Attention: Group General Counsel and  
Company Secretary

Address: Insurance Australia Group Limited  
Level 26, 388 George Street  
Sydney NSW 2000

Fax No: +61 2 9292 8072; or
  - (ii) to such other address or email address as IAG notifies to Capital Note Holders as its address or email address (as the case may be) for notices or other communications in respect of these Capital Notes Terms from time to time (an **IAG Details Notice**);
- (c) (other than in the case of email) signed by the person making the communication or by a person duly authorised by that person; and
- (d) delivered or posted by prepaid post, or sent by email to the email address in accordance with clause 15.5(b).

#### 15.6 Notices to the Trustee

A notice or other communication given to the Trustee in connection with Capital Notes must be:

- (a) in legible writing or typing and in English; and
- (b) addressed as shown below:

Attention: Corporate Securities – Perpetual  
Corporate Trust

Address: The Trust Company (Australia)  
Limited  
Level 3, Angel Place, 123 Pitt Street  
Sydney NSW 2000

Email: securities.team@perpetual.com.au
- or to such other address or email address as the Trustee notifies to Capital Note Holders as its address or email address (as the case may be) for notices or other communications in respect of these

Capital Notes Terms from time to time (a **Trustee Details Notice**);

- (c) signed by the person making the communication or by a person duly authorised by that person; and
- (d) delivered or posted by prepaid post, or sent by email to the email address in accordance with clause 15.6(b).

#### 15.7 Notices to the Registrar

A notice or other communication given to the Registrar in connection with Capital Notes must be:

- (a) in legible writing or typing and in English; and
- (b) addressed as shown below:

Attention: IAG Capital Notes Registry

Address: GPO Box 4709

Melbourne VIC 3001

or to such other address or such email address as the Registrar notifies to Capital Note Holders as its address or email address (as the case may be) for notices or other communications in respect of these Capital Notes Terms from time to time (a **Registrar Details Notice**);

- (c) signed by the person making the communication or by a person duly authorised by that person; and
- (d) delivered or posted by prepaid post, or sent by email to the email address in accordance with clause 15.7(b).

#### 15.8 When notices to IAG, Trustee or Registrar take effect

Notices or other communications from Capital Note Holders to IAG, the Trustee or the Registrar take effect from the time they are received unless a later time is specified in them.

#### 15.9 Deemed receipt of notices to IAG, Trustee or Registrar

A letter, facsimile or email is taken to be received:

- (a) in the case of a posted letter, on the sixth (tenth if posted to or from a place outside Australia) day after posting;
- (b) in the case of a facsimile, on production of a transmission report by the machine from which the facsimile was sent which indicates that the facsimile was sent in its entirety to the facsimile number of the recipient; and
- (c) if sent by email:
  - (i) when the sender receives an automated message confirming delivery; or
  - (ii) 4 hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that delivery failed,whichever happens first.

Despite paragraphs (a) (b) or (c), if a letter, facsimile or email is received after 5:00pm in the place of receipt or on a day which is not a Business Day, it is taken to be received at 9:00am on the next Business Day.

## 16 PAYMENTS, WITHHOLDING AND OTHER MATTERS

### 16.1 Deductions

- (a) IAG may deduct from any Distribution or other amount payable in accordance with the Capital Notes Terms the amount of any withholding or other tax, duty or levy required by any applicable law to be deducted in respect of such amount.
- (b) If any such deduction has been made and the amount of the deduction accounted for by IAG to the relevant revenue authority and the balance of the Distribution or other amount payable has been paid to the relevant Capital Note Holder, then the full amount payable to such Capital Note Holder shall be deemed to have been duly paid and satisfied by IAG.
- (c) IAG shall pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring any penalty under the applicable law and shall, if required by any Capital Note Holder, deliver to that Capital Note Holder a copy of the relevant receipt issued by the revenue authority (to the extent issued) without delay after it is received by IAG.

### 16.2 FATCA

- (a) IAG may withhold or make deductions from payments or from the issue of Ordinary Shares to a Capital Note Holder where it is required to do so under or in connection with FATCA, or where it has reasonable grounds to suspect that the Capital Note Holder or a beneficial owner of Capital Notes may be subject to FATCA, and may deal with such payment, and any Ordinary Shares, in accordance with FATCA.
- (b) If any withholding or deduction arises under or in connection with FATCA, IAG will not be required to pay any further amounts, issue any further Ordinary Shares on account of such withholding or deduction or otherwise reimburse or compensate, or make any payment to, a Capital Note Holder or a beneficial owner of Capital Notes for or in respect of any such withholding or deduction. A dealing with such payment and any Ordinary Shares in accordance with FATCA satisfies IAG's obligations to that Capital Note Holder to the extent of the amount of that payment or issue of Ordinary Shares.

### 16.3 Manner of payment to Capital Note Holders

All moneys payable by IAG to a Capital Note Holder may be paid in any manner IAG decides, including by any method of direct credit determined by IAG to an Australian dollar bank account maintained by the Capital Note Holder in Australia (or in such other place as IAG approves) with a financial institution specified by the Capital Note Holder to the Registrar by the close of business:

- (a) in the case of a Distribution, on the Record Date for that payment; and

- (b) in the case of the payment of the Redemption Price, by the time determined by IAG in accordance with clause 16.11(b).

#### **16.4 Unsuccessful attempts to pay**

Subject to applicable law and the ASX Listing Rules, where:

- (a) a Capital Note Holder has not notified the Registrar by the time required in accordance with clause 16.3 of an Australian dollar bank account maintained by the Capital Note Holder in Australia (or in such other place as IAG approves) with a financial institution to which payments in respect of a Capital Note may be made; or
- (b) IAG attempts to pay an amount to a Capital Note Holder by direct credit, electronic transfer of funds or any other means under the Capital Note Terms and the transfer is unsuccessful for any reason,

the amount is to be held by or on behalf of IAG for the Capital Note Holder without bearing interest until the first to occur of the following:

- (i) the Capital Note Holder or any legal personal representative of the Capital Note Holder notifies IAG of a suitable Australian dollar bank account maintained in Australia with a financial institution to which the payment may be credited;
- (ii) claims may no longer be made in respect of that amount, in which case those moneys or equivalent securities shall become the property of IAG; or
- (iii) IAG becomes entitled or obliged to deal with the amount according to the legislation relating to unclaimed moneys.

#### **16.5 Payment to joint Capital Note Holders**

A payment to any one of joint Capital Note Holders will discharge IAG's liability in respect of the payment.

#### **16.6 Time limit for claims**

A claim against IAG for payment according to these Capital Notes Terms is void, to the fullest extent permitted by applicable law, unless made within five years of the due date for payment.

#### **16.7 No interest accrues**

No interest accrues on any unpaid amount in respect of any Capital Note.

#### **16.8 Calculations and rounding of payments**

For the purposes of completing any calculations required under these Capital Notes Terms:

- (a) all percentages resulting from the calculations must be rounded, if necessary, to the nearest ten-thousandth of a percentage point (with 0.00005% being rounded up to 0.0001%);

- (b) all figures resulting from the calculations must be rounded to four decimal places (with 0.00005 being rounded up to 0.0001); and

- (c) all amounts that are due and payable to a Capital Note Holder in respect of the Capital Note Holder's aggregate holding of Capital Notes must be rounded to the nearest one Australian cent (with 0.5 of a cent being rounded up to 1 cent).

#### **16.9 Payments subject to law**

All payments are subject to applicable law.

#### **16.10 Payments on business days**

If a payment in respect of a Capital Note:

- (a) is due on a day which is not a Business Day then the due date for payment will be postponed to the first following day that is a Business Day; or
- (b) is to be made to an account on a Business Day on which the Capital Note Holder's bank is not open for general banking business in the place in which the account is located, then payment to that Capital Note Holder will be made on the next day on which the Capital Note Holder's bank is open for general banking business in that place and the Capital Note Holder is not entitled to any additional payment in respect of that delay.

Nothing in this clause applies to any payment referred to in clause 8.1(b) which occurs on the relevant date as provided in clause 8.1.

#### **16.11 Payments to Capital Note Holders**

For the purposes of identifying the person to whom payments will be made:

- (a) in the case of a Distribution, payments will be made in accordance with clause 3.6; and
- (b) in the case of Redemption Price in respect of a Capital Note, payments will be made to the person registered as the Capital Note Holder in respect of that Capital Note as at a time determined by IAG and notified to ASX or as required by ASX.

### **17 WINDING-UP AND SUBORDINATION**

#### **17.1 Winding-up**

If an order of a court of competent jurisdiction is made (other than an order successfully appealed or permanently stayed within 30 days), or an effective resolution is passed, for the winding-up of IAG in Australia (but not elsewhere) (a **Winding-up Event**), IAG is liable to Redeem each Capital Note for its Redemption Price in accordance with, and subject to, this clause 17.



## 17.2 Subordination

In a winding-up of IAG in Australia, subject to clause 6.4:

- (a) a Capital Note Holder (and the Trustee) shall be entitled to prove for the Redemption Price in respect of a Capital Note only subject to, and contingent upon, the prior payment in full of the Senior Ranking Creditors; and
- (b) the Capital Note Holder's (and the Trustee's) claim for payment of the Redemption Price ranks equally with, and shall be paid in proportion to, the claims of Capital Note Holders of other instruments issued as Equal Ranking Instruments,

so that the Capital Note Holder receives, for the Capital Note, an amount equal to the amount it would have received if, in the winding-up of IAG, it had held an issued and fully paid Preference Share.

## 17.3 Agreements of Capital Note Holders and Trustee as to subordination

Each Capital Note Holder (and the Trustee, in its capacity as trustee for the Capital Note Holders) irrevocably agrees:

- (a) that clause 17.2 is a debt subordination for the purposes of section 563C of the Corporations Act;
- (b) that it does not have, and waives to the maximum extent permitted by law, any entitlement to interest under section 563B of the Corporations Act to the extent that a holder of a Preference Share would not be entitled to such interest;
- (c) that it shall not have, and is taken to have waived, to the fullest extent permitted by law, any right to prove in a winding-up or administration of IAG as a creditor in respect of the Capital Notes so as to diminish any distribution of property or assets, dividend or payment that any Senior Ranking Creditor would otherwise receive;
- (d) not to exercise any voting rights or other rights as a creditor in the winding-up or administration of IAG in any jurisdiction:
  - (i) until after all Senior Ranking Creditors have been paid in full; and
  - (ii) in a manner to defeat the subordination provided for by clause 2 and clause 17.2;
- (e) that it must pay or deliver to the liquidator or administrator any amount or asset received on account of its claim in the winding-up or administration of IAG in respect of the Capital Notes in excess of its entitlement under clause 2 and clause 17.2;
- (f) that it must pay in full all liabilities it owes IAG before it may receive any amount or asset on account of its claim in the winding-up or administration in respect of a Capital Note;
- (g) that the debt subordination effected by clause 2 and clause 17.2 is not affected by any act or omission of

any person which might otherwise affect it at law or in equity; and

- (h) that it has no remedy for the recovery of the Redemption Price other than to prove in the winding-up in accordance with this clause 17.

## 17.4 Shortfall on winding-up

If, upon a return of capital on a winding-up of IAG, there are insufficient funds to pay in full the Redemption Price and the amounts payable in respect of any other Equal Ranking Instruments, Capital Note Holders and the holders of any such Equal Ranking Instruments will share in any distribution of assets of IAG in proportion to the amounts to which they are entitled respectively.

## 17.5 No participation in surplus assets

Capital Notes do not confer on their Capital Note Holders any claim on IAG in a winding-up beyond payment of the Redemption Price.

## 17.6 No set-off or offsetting rights

A Capital Note Holder:

- (a) may not exercise any right of set-off against IAG in respect of any claim by IAG against that Capital Note Holder; and
- (b) will have no offsetting rights or claims on IAG if IAG does not pay a Distribution or other amount when scheduled under Capital Notes.

IAG may not exercise any right of set-off against a Capital Note Holder in respect of any claim by that Capital Note Holder against IAG.

## 17.7 No consent of Senior Ranking Creditors

Nothing in clause 2 or this clause 17 shall be taken:

- (a) to require the consent of any Senior Ranking Creditor to any amendment of these Capital Notes Terms; or
- (b) to create a charge or security interest over any right of a Capital Note Holder or the Trustee.

# 18 ENFORCEMENT

## 18.1 Enforcement by Trustee

Subject to clause 18.2, only the Trustee may enforce the provisions of the Trust Deed or these Capital Notes Terms. The Trustee shall not be bound to take any action under these Capital Notes Terms or the Trust Deed to enforce the obligations of IAG in respect of the Capital Notes or any other proceedings or action pursuant to or in connection with the Trust Deed or the Capital Notes unless:

- (a) it shall have been so directed by a Special Resolution of Capital Note Holders or so requested in writing by the Capital Note Holders holding Capital Notes representing at least 15% of the aggregate Issue Price of all Capital Notes then outstanding; and
- (b) it shall have been indemnified in accordance with clause 1.3 of the Trust Deed.

## 18.2 Capital Note Holder's right to take action

No Capital Note Holder shall be entitled to proceed directly against IAG to enforce any right or remedy under or in respect of any Capital Note or the Trust Deed (including by way of proving for the Redemption Price in a winding-up of IAG) unless the Trustee, having become bound to proceed, fails to do so within 14 days and the failure is continuing, in which case any Capital Note Holder may itself institute proceedings against IAG for the relevant remedy to the same extent (but not further or otherwise) that the Trustee would have been entitled to do so.

## 19 AMENDMENT OF THESE CAPITAL NOTES TERMS

### 19.1 Amendment without consent

Subject to complying with all applicable laws, IAG may, with the approval of the Trustee (such approval not to be unreasonably withheld or delayed), amend these Capital Notes Terms without the approval of Capital Note Holders:

- (a) if IAG is of the opinion that the amendment:
  - (i) is of a formal, minor or technical nature;
  - (ii) is made to cure any ambiguity or correct any manifest error;
  - (iii) is expedient for the purpose of enabling Capital Notes to be listed or to remain listed on a securities exchange (including, without limitation, in connection with any change in the principal securities exchange on which Ordinary Shares are listed) or lodged in a clearing system or to remain lodged in a clearing system or to be offered for sale or for subscription under the laws for the time being in force in any place;
  - (iv) is necessary to comply with the provisions of any statute or the requirements of any statutory authority;
  - (v) is made in accordance with IAG's adjustment rights in clause 8;
  - (vi) amends any date or time period stated, required or permitted in connection with any Mandatory Conversion, Non-Viability Conversion or Exchange in a manner necessary or desirable to facilitate the Mandatory Conversion, Non-Viability Conversion or Exchange (including without limitation where in connection with the Exchange the proceeds of Redemption are to be reinvested in a new security to be issued by IAG or a Related Entity of IAG); or
  - (vii) is made to:
    - (A) alter the terms of any Capital Notes to align them with any Additional Tier 1 Capital Securities issued after the date of such capital notes; or

- (B) alter the definition of "Relevant Securities", "Equal Ranking Instruments" or "Additional Tier 1 Capital Securities" on account of the issue (after the Issue Date) of capital instruments of the IAG Level 2 Insurance Group; or

- (b) generally, in any case where in IAG's opinion such amendment is not likely (taken as a whole and in conjunction with all other amendments or actions, if any, to be made at or about the time of that amendment) to be materially prejudicial to the interests of Capital Note Holders as a whole.

### 19.2 Amendment with consent

Without limiting clause 19.1, at any time, but subject to compliance with all applicable laws, IAG may, with the approval of the Trustee (such approval not to be unreasonably withheld or delayed), amend these Capital Notes Terms:

- (a) except as otherwise provided in paragraphs (b), (c) and (d) below, if such amendment is authorised by a Special Resolution;
- (b) in the case of an amendment to this clause 19.2 or any clause of the Trust Deed providing for Capital Note Holders to give a direction to the Trustee by a Special Resolution, if a Special Resolution is passed in favour of such amendment;
- (c) in the case of an amendment to the Meeting Provisions and to which this clause 19.2 does not apply, if a Special Resolution is passed in favour of such amendment; and
- (d) otherwise in accordance with the Trust Deed.

### 19.3 Consents

Prior to any amendment under this clause 19, IAG must obtain any consent needed to the amendment and, in particular, any amendment which may cause the Capital Notes to cease to be eligible for inclusion as Additional Tier 1 Capital is subject to the prior written consent of APRA.

### 19.4 Meaning of amend and amendment

In this clause 19, "amend" includes modify, cancel, alter or add to, and amendment has a corresponding meaning.

## 20 GOVERNING LAW AND JURISDICTION

### 20.1 Governing law

These Capital Notes Terms are governed by the laws in force in New South Wales.

### 20.2 Jurisdiction

IAG and each Capital Note Holder submits to the non-exclusive jurisdiction of the courts of New South Wales for the purpose of any legal proceedings arising out of these Capital Notes Terms.



## 21 INTERPRETATION AND DEFINITIONS

### 21.1 Interpretation

- (a) Unless otherwise specified, a reference to a clause is a reference to a clause of these Capital Notes Terms.
- (b) The terms takeover bid, relevant interest, scheme of arrangement, buy-back and related body corporate when used in these Capital Notes Terms have the meaning given in the Corporations Act.
- (c) Headings and boldings are for convenience only and do not affect the interpretation of these Capital Notes Terms.
- (d) The singular includes the plural and vice versa.
- (e) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (f) Other than in relation to a Non-Viability Trigger Event and a Conversion on a Trigger Event Date, if an event under these Capital Notes Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.
- (g) A reference to dollars, AUD, A\$, \$ or cents is a reference to the lawful currency of Australia.
- (h) Any reference to any requirements of APRA or any other prudential regulatory requirements in these Capital Notes Terms will apply or be operative with respect to IAG only if IAG is an entity, or the holding company of an entity, or is a direct or indirect subsidiary of a holding company, which is subject to regulation and supervision by APRA at the relevant time.
- (i) Any requirement for APRA's consent or approval in any provision of these Capital Notes Terms will apply only if APRA requires that such consent or approval be given at the relevant time.
- (j) A reference to any term defined by APRA (including, without limitation, "Level 2", "Additional Tier 1 Capital" and "Tier 1 Capital") shall, if that term is replaced or superseded in any of APRA's applicable prudential regulatory requirements or standards, be taken to be a reference to the replacement or equivalent term.
- (k) A reference to a term defined by the ASX Listing Rules, the ASX Settlement Operating Rules or the ASX Operating Rules shall, if that term is replaced in those rules, be taken to be a reference to the replacement term.
- (l) If the principal securities exchange on which Ordinary Shares are listed becomes other than ASX, unless the context otherwise requires a reference to ASX shall be read as a reference to that principal securities exchange and a reference to the ASX Listing Rules, ASX Settlement Operating Rules, ASX Operating Rules or

any term defined in any such rules, shall be read as a reference to the corresponding rules of that exchange or corresponding defined terms in such rules (as the case may be).

- (m) So long as the Capital Notes are quoted on ASX and entered into CHESS, the Capital Notes Terms are to be interpreted in a manner consistent with the ASX Listing Rules, ASX Settlement Operating Rules and ASX Operating Rules except to the extent that an interpretation consistent with those rules would affect the eligibility of the Capital Notes as Additional Tier 1 Capital.
- (n) Calculations, elections and determinations made by IAG under these Capital Notes Terms are binding on Capital Note Holders in the absence of manifest error.
- (o) Where IAG is required to give or serve a notice by a certain date under these Capital Notes Terms, IAG is required to despatch the notice by that date (including at IAG's discretion, by posting or lodging notices with a mail house) and delivery or receipt (or deemed delivery) is permitted to occur after that date.
- (p) Where a Capital Note Holder is required to give or deliver a notice to IAG by a certain date under these Capital Notes Terms, the notice must be received by IAG by that date.

### 21.2 Definitions for Capital Notes Terms

**Acquisition Conversion Date** has the meaning given in clause 7.3.

**Acquisition Conversion Notice** has the meaning given in clause 7.2.

**Acquisition Conversion Restriction** has the meaning given in clause 7.4.

**Acquisition Event** means:

- (a) a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and:
  - (i) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or
  - (ii) the Directors issue a statement that at least a majority of those Directors who are eligible to do so recommend acceptance of the offer (which may be stated to be in the absence of a higher offer); or
- (b) a court approves a scheme of arrangement which, when implemented, will result in a person other than IAG having a relevant interest in more than 50% of the Ordinary Shares,

and all regulatory approvals necessary for the acquisition to occur have been obtained.

**Acquisition Event Notice** has the meaning given in clause 7.1.

**Acquisition Non-Conversion Test Date** has the meaning given in clause 7.4.

**Additional Tier 1 Capital** means Additional Tier 1 Capital as defined by APRA in accordance with APRA's prudential standards from time to time.

**Additional Tier 1 Capital Security** means a share, note or other security or instrument constituting Additional Tier 1 Capital of the IAG Level 2 Insurance Group.

**Adjustment Notice** has the meaning given in clause 8.8.

**Applicable Regulation** means such provisions of the ASX Listing Rules, the ASX Settlement Operating Rules, the ASX Operating Rules, the Corporations Act and any regulations or rules pursuant under or pursuant to any such provisions as may be applicable to the transfer.

**APRA** means the Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of IAG or the IAG Level 2 Insurance Group.

**ASX** means ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires, or any successor.

**ASX Listing Rules** means the listing rules of ASX as amended, varied or waived (whether in respect of IAG or generally) from time to time.

**ASX Operating Rules** means the market operating rules of ASX as amended, varied or waived (whether in respect of IAG or generally) from time to time.

**ASX Settlement Operating Rules** means the settlement operating rules of ASX from time to time with any applicable modifications or waivers granted by ASX.

**Attorney** has the meaning given in clause 11.1.

**Bank Bill Rate** has the meaning given in clause 3.1.

**Bookbuild** means the process conducted prior to the opening of the Offer whereby certain investors lodge bids for Capital Notes and, on the basis of those bids, IAG and the joint lead managers to the Offer determine the Margin.

**Business Day** means:

- (a) a business day as defined in the ASX Listing Rules; and
- (b) for the purposes of defining an Acquisition Conversion Date, Deferred Conversion Date, Mandatory Conversion Date, Exchange Date or Optional Exchange Date, or any Distribution Payment Date or the calculation or payment of a Distribution or of any other sum, a day on which banks are open for general business in Sydney, New South Wales.

**Buy-Back** means a transaction involving the acquisition by IAG of Ordinary Shares pursuant to an offer made at IAG's discretion in any way permitted by the provisions of Part 2J of the Corporations Act.

**Capital Reduction** means a reduction in capital initiated by IAG in its discretion in respect of Ordinary Shares in any way permitted by the provisions of Part 2J of the Corporations Act.

**CHESS** means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

**Capital Note** means a perpetual, convertible, subordinated and unsecured debt obligation in the form of an unsecured note of IAG constituted by, and owing under, the Trust Deed.

**Capital Note Holder** means a person whose name is registered as the holder of a Capital Note.

**Capital Notes Terms** means these terms of issue of Capital Notes.

**Constitution** means the constitution of IAG as amended from time to time.

**Control** has the meaning given in the Corporations Act.

**Controlled Entity** means, in respect of IAG, an entity IAG Controls.

**Conversion** means, in relation to a Capital Note, the allotment and issue of Ordinary Shares and the termination of the Capital Note Holder's rights in relation to that Capital Note, in each case in accordance with clause 8, and **Convert** and **Converted** have corresponding meanings.

**Conversion Number** has the meaning given in 8.1(a).

**Conversion Test Date Percentage** has the meaning given in clause 4.3.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Cum Value** has the meaning given in clause 8.2.

**Defaulting Nominated Purchaser** means a Nominated Purchaser that does not pay the Resale Price as described in clause 10.6.

**Deferred Acquisition Conversion Notice** has the meaning given in clause 7.5.

**Deferred Conversion Date** has the meaning given in clause 5.5.

**Deferred Conversion Notice** has the meaning given in clause 5.5.

**Delisting Event** means, in respect of a date, that:

- (a) Ordinary Shares ceased to be listed or admitted to trading on ASX on or before that date (and where the cessation occurred before that date, Ordinary Shares continue not to be listed or admitted to trading on that date);
- (b) trading of Ordinary Shares on ASX is suspended for a period of consecutive days which includes:
  - (i) at least five consecutive Business Days prior to that date; and
  - (ii) that date; or
- (c) an Inability Event subsists.

**Directors** means some or all of the directors of IAG acting as a board.

**Distribution** has the meaning given in clause 3.1.

**Distribution Payment Date** has the meaning given in clause 3.5 whether or not a Distribution is, or is able to be, paid on that date.

**Distribution Period** means in respect of:

- (a) the first Distribution Period, the period from (and including) the Issue Date until (but not including) the first Distribution Payment Date following the Issue Date; and
- (b) each subsequent Distribution Period, the period from (and including) the preceding Distribution Payment Date until (but not including) the next Distribution Payment Date.

**Distribution Rate** has the meaning given in clause 3.1.

**Encumbrance** means any mortgage, pledge, charge, lien, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement, any other security agreement or security arrangement (including any security interest under the Personal Property Securities Act 2009 (Cth)) and any other arrangement of any kind having the same effect as any of the foregoing other than liens arising by operation of law.

**Equal Ranking Instruments** means, in respect of the return of capital in a winding-up:

- (a) IAG CPS;
- (b) RES Preference Shares (if issued) and, in a winding up of IAG, the claim of a holder of RES against IAG in respect of any failure by IAG to issue RES Preference Shares as required by the RES Terms;
- (c) each other preference share that IAG may issue that ranks or is expressed to rank equally with the foregoing and the Capital Notes in respect of distribution or dividend or for the return of capital in a winding-up of IAG (as the case may be); and
- (d) any securities or other instruments that rank or are expressed to rank in respect of dividend or distribution or for repayment or return of capital in a winding-up (as the case may be) equally with those preference shares and the Capital Notes.

**Exchange** means:

- (a) Conversion in accordance with and subject to clause 8;
- (b) Redemption in accordance with and subject to clause 9;
- (c) Resale in accordance with and subject to clause 10; or
- (d) a combination of two or more of Conversion, Redemption and Resale in accordance with clause 5.3, and **Exchanged** has a corresponding meaning.

**Exchange Date** has the meaning given in clause 5.2(b).

**Exchange Method** has the meaning given in clause 5.3.

**Exchange Notice** has the meaning given in clause 5.1.

**External Administrator** means, in respect of a person:

- (a) a liquidator, a provisional liquidator, an administrator or a statutory manager of that person; or
- (b) a receiver, or a receiver and manager, in respect of all or substantially all of the assets and undertaking of that person,

or in either case any similar official.

**FATCA** means the Foreign Account Tax Compliance Act provisions, being sections 1471 through 1474 of the United States Internal Revenue Code including any regulations or official interpretations issued, agreements or intergovernmental agreements entered into or non-US laws enacted with respect to those provisions.

**FATCA Withholding** means any deduction or withholding imposed or required pursuant to FATCA.

**First Acquisition Conversion Restriction** has the meaning given in clause 7.4.

**First Mandatory Conversion Condition** has the meaning given in clause 4.3.

**First Optional Conversion Restriction** has the meaning given in clause 5.4.

**First Test Date** has the meaning given in clause 4.3.

**First Test Date Percentage** has the meaning given in clause 4.3.

**Fitch** means Fitch Australia Pty Ltd and its successors and assigns.

**Foreign Capital Note Holder** means a Capital Note Holder whose address in the Register is a place outside Australia or who IAG otherwise believes may not be a resident of Australia.

**Franking Rate** (expressed as a decimal) means the franking percentage (within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that Part) applicable to the franking account of IAG at the relevant Distribution Payment Date.

**IAG** means Insurance Australia Group Limited (ABN 60 090 739 923).

**IAG CPS** means the convertible preference shares issued by IAG on or about 1 May 2012.

**IAG Details Notice** has the meaning given in clause 15.5.

**IAG Level 2 Insurance Group** means the Level 2 insurance group (as defined by APRA from time to time) of which IAG is the parent entity.

**IAG Shares** means Ordinary Shares or any other shares in the capital of IAG.

**Insurance Act** means the Insurance Act 1973 (Cth).

**Inability Event** means IAG is prevented by applicable law or order of any court or action of any government authority or External Administrator (including regarding the insolvency, winding up or other external administration of IAG) or any other reason from Converting the Capital Notes.

**Issue Date** means the date on which Capital Notes are issued.

**Issue Date VWAP** means the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place on ASX immediately preceding (but not including) the Issue Date, as adjusted in accordance with clauses 8.4 to 8.7 (inclusive).

**Issue Price** has the meaning given in clause 1.3.

**Mandatory Conversion** means the mandatory conversion under clause 4 of Capital Notes to Ordinary Shares on the Mandatory Conversion Date.

**Mandatory Conversion Conditions** has the meaning given in clause 4.3.

**Mandatory Conversion Date** has the meaning given in clause 4.2.

**Margin** has the meaning given in clause 3.1.

**Maximum Conversion Number** has the meaning given in clause 8.1(a).

**Meeting Provisions** means the provisions for meetings of the Capital Note Holders set out in schedule 3 to the Trust Deed.

**Moody's** means Moody's Investors Service Pty Limited and its successors and assigns.

**Nominated Purchaser** means, subject to clause 10.3, a third party selected by IAG in its absolute discretion.

**Non-Conversion Notice** has the meaning given in clause 4.4.

**Non-Conversion Test Date** has the meaning given in clause 5.4.

**Non-Viability Conversion** means the Conversion of Capital Notes to Ordinary Shares on or with effect from the Trigger Event Date in accordance with clause 6.2.

**Non-Viability Determination** has the meaning given in clause 6.1.

**Non-Viability Trigger Event** has the meaning given in clause 6.1.

**Offer** means the invitation under the Prospectus made by IAG for persons to subscribe for Capital Notes.

**Optional Conversion Restrictions** has the meaning given in clause 5.4.

**Optional Exchange Date** means the Distribution Payment Date falling on or about 15 June 2023.

**Ordinary Share** means a fully paid ordinary share in the capital of IAG.

**Ordinary Share Dividend** means any interim, final or special dividend payable in accordance with the Corporations Act and the Constitution of IAG in relation to Ordinary Shares.

**Ordinary Shareholder** means a person whose name is registered as the holder of an Ordinary Share.

a **Payment Condition** will exist with respect to the payment of a Distribution on the Capital Notes on a Distribution Payment Date if:

- (a) unless APRA otherwise approves in writing, paying the Distribution on the Capital Notes on the Distribution Payment Date would result in IAG or the IAG Level 2 Insurance Group not complying with APRA's then current capital adequacy requirements;
- (b) paying the Distribution on the Distribution Payment Date would result in IAG becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or
- (c) APRA objects to the Distribution payment on the Capital Notes on the Distribution Payment Date.

**Potential Acquisition Event** means:

- (a) an event within paragraph (a) of the definition of Acquisition Event occurs (without the need that all regulatory approvals necessary for the acquisition to occur have been obtained); or
- (b) a court orders the holding of meetings to approve a scheme of arrangement under Part 5.1 of the Corporations Act and the scheme would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented.

**Preference Share** means a notional preference share in the capital of IAG conferring a claim in the winding-up of IAG equal to the Redemption Price and ranking in respect of return of capital in the winding-up ahead only of Ordinary Shares and equally with Equal Ranking Instruments.

**Prospectus** means the prospectus for the Offer including these Capital Notes Terms.

**Publication Time** has the meaning given in clause 3.1.

**Record Date** means for payment of a Distribution:

- (a) subject to paragraph (b) below, the date which is eight calendar days before the applicable Distribution Payment Date;
- (b) such other date as is determined by IAG in its absolute discretion and communicated to ASX and the Trustee not less than eight calendar days before the Record Date which would have been determined under paragraph (a) above; or
- (c) such other date as may be required by, or agreed with, ASX.

**Redeem** means, in relation to a Capital Note, redeem the Capital Note in accordance with clause 9, and **Redeemed** and **Redemption** have corresponding meanings.

**Redemption Price** has the meaning given in clause 9.2.

**Register** means a register of Capital Notes maintained by or on behalf of IAG in accordance with clause 13 of the Trust Deed and includes any subregister established and maintained in CHESS under Applicable Regulation.

**Registrar** means Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registrar that maintains the Register.

**Registrar Details Notice** has the meaning given in clause 15.7.

**Regulatory Event** means:

- (a) the receipt by the Directors of an opinion from a reputable legal counsel that, as a result of any amendment to, clarification of or change (including any announcement of a change that has been or will be introduced) in any law or regulation (including prudential standards) or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations or any statement of APRA which amendment, clarification or change is effective, or pronouncement, action or decision is announced, on or after the Issue Date and which on the Issue Date is not expected by IAG to come into effect (each, a **Regulatory Change**), additional requirements would be imposed on IAG in relation to or in connection with the Capital Notes which the Directors determine, at their absolute discretion, to be unacceptable; or
- (b) the determination by the Directors that, as a result of a Regulatory Change, IAG is not or will not be entitled to treat some or all Capital Notes as Additional Tier 1 Capital of the IAG Level 2 Insurance Group.

**Related Entity** has the meaning given by APRA from time to time.

**Relevant Date** has the meaning given in clause 4.2.

**Relevant Distribution Payment Date** has the meaning given in clause 3.7.

**Relevant Percentage** has the meaning given in clause 8.1.

**Relevant Security** means an Additional Tier 1 Capital Security that, in accordance with its terms or by operation of law, is capable of being converted into Ordinary Shares or written-off upon the occurrence of a Non-Viability Trigger Event and includes, for so long as they are on issue, the IAG CPS but does not include, for so long as they are on issue, the RES.

**Reorganisation** has the meaning given in clause 8.3(a).

**RES** means a perpetual reset note issued by IAG Finance (New Zealand) Limited (ABN 97 111 268 243) (acting through its branch in Auckland, New Zealand) (**IAGFNZ**) as constituted under the RES Trust Deed.

**RES Preference Shares** means fully paid preference shares in the capital of IAG according to the terms of issue as scheduled to the RES Trust Deed.

**RES Terms** means the terms of issue of RES as scheduled to the RES Trust Deed.

**RES Trust Deed** means the trust deed amended and restated on or about 15 December 2009 relating to RES made between IAGFNZ, IAG and Trust Company Fiduciary Services Limited (ABN 21 000 000 993).

**Resale** means the sale of a Capital Note to a Nominated Purchaser in accordance with clause 10, and **Resold** and **Resell** have corresponding meanings.

**Resale Price** means, for a Capital Note, a cash amount equal to its Issue Price.

**Restricted Securities** has the same meaning as in the ASX Listing Rules and extends to Capital Notes which are subject to voluntary restrictions by agreement between IAG and one or more Capital Note Holders.

**Restriction Agreement** means an agreement which is required to be concluded under Chapter 9 of the ASX Listing Rules or is voluntarily concluded between IAG and one or more Capital Note Holders.

**Scheduled Mandatory Conversion Date** has the meaning given in clause 4.2.

**Second Acquisition Conversion Restriction** has the meaning given in clause 7.4.

**Second Mandatory Conversion Condition** has the meaning given in clause 4.3.

**Second Optional Conversion Restriction** has the meaning given in clause 5.4.

**Second Test Period** has the meaning given in clause 4.3.

**Senior Ranking Creditors** means all creditors of IAG (present and future), including all investors in IAG's senior or subordinated debt whose claims are:

- (a) entitled to be admitted in a winding-up of IAG; and
- (b) not in respect of Ordinary Shares or Equal Ranking Instruments.

**Special Resolution** means a resolution passed:

- (a) at a meeting of the Capital Note Holders, duly called and held under the Meeting Provisions:
  - (i) by at least 75% of the persons voting on a show of hands (unless paragraph (b) below applies); or
  - (ii) if a poll is duly demanded, then by a majority consisting of at least 75% of the votes cast; or
- (b) by postal ballot or written resolution under the Meeting Provisions by Capital Note Holders representing (in aggregate) at least 75% of the outstanding Capital Notes.

**Standard & Poor's** means Standard & Poor's (Australia) Pty Limited and its successors and assigns.

**Subsequent Mandatory Conversion Date** has the meaning given in clause 4.2.



**Tax Act** means:

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

**Tax Event** means the receipt by the Directors 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 announcement of a change that has been or will be introduced) in, the laws or treaties or any regulations affecting taxation in Australia;
- (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) affecting taxation in a Australia (**Administrative Action**); or
- (c) any amendment to, clarification of, or change in, an Administrative Action that provides for a position that differs from the current generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body (including, without limitation, a tax authority), 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 which pronouncement or decision is announced, on or after the Issue Date and which on the Issue Date is not expected by IAG to come into effect, there is more than an insubstantial risk which the Directors determine at their absolute discretion to be unacceptable that:

- (i) IAG would be exposed to more than a de minimis increase in its costs (including without limitation through the imposition of any taxes, duties, assessments or other charges) or adverse tax consequence in relation to the Capital Notes; or
- (ii) any Distribution in respect of the Capital Notes would not be a frankable dividend or distribution within the meaning of Division 202 of the Tax Act or would give rise to an additional franking debit or Australian tax resident Capital Note Holders generally would not be entitled to franking credits in respect of the Distributions.

**Third Mandatory Conversion Condition** has the meaning given in clause 4.3.

**Tier 1 Capital** means Tier 1 capital (as defined by APRA from time to time).

**Trigger Event Date** means the date on which APRA notifies IAG of a Non-Viability Trigger Event as contemplated in clause 6.1.

**Trigger Event Notice** has the meaning given in clause 6.2.

**Trust Deed** means the deed entitled IAG Capital Notes Trust Deed dated on or about 21 November 2016 between IAG and the Trustee.

**Trustee** means The Trust Company (Australia) Limited (ABN 21 000 000 993).

**Trustee Details Notice** has the meaning given in clause 15.6.

**VWAP** means, subject to any adjustments under clause 8, the average of the daily volume weighted average sale prices (such average being 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 "Crossing" transacted outside the "Open Session State" or any "Special Crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

**VWAP Period** means:

- (a) in the case of a Conversion resulting from a Potential Acquisition Event or an Acquisition Event the lesser of:
  - (i) 20 Business Days on which trading in Ordinary Shares takes place on ASX; and
  - (ii) the number of Business Days on which trading in Ordinary Shares takes place that the Ordinary Shares are quoted for trading on ASX after the occurrence of the Potential Acquisition Event or Acquisition Event (as the case may be),
 in each case immediately preceding (but not including) the Business Day before the Exchange Date or Acquisition Conversion Date in respect of that event (as the case may be);
- (b) in the case of a Conversion resulting from a Non-Viability Trigger Event, the period of 5 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Trigger Event Date;
- (c) in the case of any other Conversion, the period of 20 Business Days on which trading in Ordinary Shares took place on ASX immediately preceding (but not including) the date on which Conversion is to occur in accordance with these Capital Notes Terms; or
- (d) otherwise, the period for which VWAP is to be calculated in accordance with these Capital Notes Terms.

**Winding-up Event** means the making of a court order or passing of an effective resolution for the winding-up of IAG as described in clause 17.1.

**Written-Off** has the meaning given in clause 6.4.



# APPENDIX B: GLOSSARY.

This Appendix provides a glossary of key terms and abbreviations used throughout this Prospectus and the Application Form. There is also a list of further defined terms in clause 21.2 of the Capital Notes Terms immediately prior to this Glossary commentary on page 109.



Term	Meaning
<b>2006 GBP Notes</b>	£100 million GBP subordinated term notes due 2026 issued by IAG on 21 December 2006.
<b>2011 NZ\$ Bonds</b>	NZ\$187 million NZ\$ subordinated bonds due 2036 issued by IAG on 15 December 2011.
<b>ABN</b>	Australian Business Number.
<b>Acquisition Conversion Date</b>	see clause 7.3 of the Capital Notes Terms.
<b>Acquisition Conversion Notice</b>	see clause 7.2 of the Capital Notes Terms.
<b>Acquisition Event</b>	broadly, occurs when certain takeover bids or schemes of arrangement occur in relation to IAG. For the full definition – see clause 21.2 of the Capital Notes Terms.
<b>Additional Tier 1 Capital</b>	has the meaning given by APRA in accordance with its Prudential Standards from time to time.
<b>Additional Tier 1 Capital Security</b>	a share, note or other security or instrument constituting Additional Tier 1 Capital of the IAG Level 2 Insurance Group.
<b>Applicant</b>	a person who submits an Application.
<b>Application</b>	a valid application for a specified number of Capital Notes made pursuant to an Application Form.
<b>Application Form</b>	a paper or online form (as the context requires) attached to, or accompanying, this Prospectus or available at <a href="http://www.iag.com.au">www.iag.com.au</a> , or the electronic form provided for online Applications under the Reinvestment Offer, on which an Application can be made.
<b>Application Payment</b>	the monies payable on each Application, calculated as the number of Capital Notes applied for multiplied by the Issue Price.
<b>APRA</b>	Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of IAG or the Group.
<b>Arranger</b>	UBS.
<b>ASIC</b>	Australian Securities and Investments Commission (ABN 86 768 265 615).
<b>ASX</b>	ASX Limited (ABN 98 008 624 691), or the market operated by it, as the context requires.
<b>ASX Listing Rules</b>	the listing rules of ASX, as amended, varied or waived (whether in respect of IAG or generally) from time to time.
<b>ASX Operating Rules</b>	the market operating rules of ASX as amended, varied or waived (whether in respect of IAG or generally) from time to time.
<b>Australian Accounting Standards</b>	the accounting standards as developed and issued by the Australian Accounting Standards Board.
<b>Bank Bill Rate</b>	see clause 3.1 of the Capital Notes Terms.
<b>Board</b>	the board of directors of IAG.
<b>Bookbuild</b>	the process described in Section 7.3.6 to determine the Margin. See clause 21.2 of the Capital Notes Terms.
<b>Broker Firm Applicant</b>	an Australian resident retail or high net worth client of a Syndicate Broker invited to participate through the Broker Firm Offer.
<b>Broker Firm Offer</b>	the offer of Capital Notes under this Prospectus to Australian resident retail and high net worth clients of Syndicate Brokers, including under the Reinvestment Offer.
<b>Business Day</b>	a: <ul style="list-style-type: none"> <li>business day as defined in the ASX Listing Rules; and</li> <li>for the purposes of determining any Acquisition Conversion Date, Deferred Conversion Date, Mandatory Conversion Date, Exchange Date or Optional Exchange Date, or any Distribution Payment Date or the calculation or payment of a Distribution or of any other sum, a day on which banks are open for general business in Sydney, New South Wales.</li> </ul>
<b>Capital Note Holder</b>	a person whose name is registered as the holder of a Capital Note(s).

Term	Meaning
<b>Capital Notes</b>	perpetual, convertible, subordinated debt obligations in the form of unsecured notes which will Mandatorily Convert into Ordinary Shares (subject to certain conditions being satisfied), and which are to be issued by IAG under this Prospectus.
<b>Capital Notes Terms</b>	terms and conditions of the Capital Notes as set out in Appendix A.
<b>CGT</b>	capital gains tax.
<b>CHESS</b>	Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532).
<b>Closing Date</b>	the last date by which Applications must be lodged for the Offer, being: <ul style="list-style-type: none"> <li>• 5:00pm on 16 December 2016 for the Reinvestment Offer and applications to reinvest CPS under the Broker Firm Offer (unless varied); and</li> <li>• 10:00am on 21 December 2016 for the Broker Firm Offer (excluding applications to reinvest CPS) (unless varied).</li> </ul>
<b>Co-Managers</b>	Crestone Wealth Management and JBWere.
<b>Common Equity Tier 1 Capital</b>	common equity tier 1 capital of the Group as defined by APRA from time to time.
<b>Constitution</b>	the constitution of IAG, as amended from time to time.
<b>Conversion</b>	in relation to a Capital Note, the allotment and issue of Ordinary Shares and the termination of the Capital Note Holder's rights in relation to that Capital Note, in each case in accordance with the Capital Notes Terms.  For the full Conversion mechanics – see clauses 8 and 21.2 of the Capital Notes Terms.  Convert, Converted and Converting have corresponding meanings.
<b>Conversion Number</b>	see clause 8.1(a) of the Capital Notes Terms.
<b>Corporations Act</b>	Corporations Act 2001 (Cth).
<b>CPS</b>	convertible preference shares issued by IAG according to a prospectus dated 27 March 2012.
<b>CPS Holder Applicant</b>	an Eligible CPS Holder who applies under the Reinvestment Offer (other than through the Broker Firm Offer).
<b>CPS Terms</b>	terms and conditions of the CPS, as amended effective as of 21 November 2016.
<b>Crestone Wealth Management</b>	Crestone Wealth Management Limited (ABN 50 005 311 937).
<b>Delisting Event</b>	broadly, occurs when IAG is delisted, its Ordinary Shares have been suspended from trading for a certain period, or an Inability Event is subsisting.  For the full definition – see clause 21.2 of the Capital Notes Terms.
<b>Directors</b>	some or all of the directors of IAG acting individually or as a board, as the context requires.
<b>Distribution</b>	see clause 3.1 of the Capital Notes Terms.
<b>Distribution Payment Date</b>	in respect of a Capital Note, and subject to the Capital Notes Terms, 15 March 2017, and after that each 15 March, 15 June, 15 September and 15 December until the date that the Capital Note is Converted or Redeemed, and each date on which an Exchange of that Capital Note occurs other than in connection with a Non-Viability Trigger Event, whether or not a Distribution is, or is able to be, paid on that date.  For the full definition – see clause 3.5 and 21.2 of the Capital Notes Terms.
<b>Distribution Payment Tests</b>	in relation to Distributions, each Distribution is subject to: <ul style="list-style-type: none"> <li>• IAG's absolute discretion; and</li> <li>• no Payment Condition existing in respect of the relevant Distribution Payment Date.</li> </ul>

Term	Meaning
<b>Distribution Period</b>	a period from (and including) either the Issue Date until (but not including) the first Distribution Payment Date, or from a subsequent Distribution Payment Date until (but not including) the following Distribution Payment Date. For the full definition – see clause 21.2 of the Capital Notes Terms.
<b>Distribution Rate</b>	the distribution rate on Capital Notes calculated using the formula described in Section 2.1.2. For the full definition – see clause 3.1 of the Capital Notes Terms.
<b>Distribution Restriction</b>	the restriction on the payment of dividends on Ordinary Shares and the undertaking of certain buy-backs or capital reductions which may apply as a result of clause 3.7 of the Capital Notes Terms and which is discussed in Section 2.1.8.
<b>Eligible CPS Holder</b>	a CPS holder who is: <ul style="list-style-type: none"> <li>• a registered holder of CPS at 7:00pm on 18 November 2016;</li> <li>• shown on the CPS register as having an address in Australia; and</li> <li>• not in the United States or acting as a nominee for a person in the United States.</li> </ul>
<b>Exchange</b>	any of the following: <ul style="list-style-type: none"> <li>• Conversion in accordance with and subject to clause 8 of the Capital Notes Terms;</li> <li>• Redemption in accordance with and subject to clause 8 of the Capital Notes Terms;</li> <li>• Resale in accordance with and subject to clause 10 of the Capital Notes Terms; or</li> <li>• a combination of two or more of Conversion, Redemption and Resale in accordance with clause 5.3 of the Capital Notes Terms.</li> </ul> Exchanged has a corresponding meaning.
<b>Equal Ranking Instruments</b>	in respect of the return of capital in a winding-up: <ul style="list-style-type: none"> <li>• CPS;</li> <li>• RES Preference Shares (if issued) and, in a winding-up of IAG, the claim of a holder of RES against IAG in respect of any failure by IAG to issue RES Preference Shares as required by the RES terms;</li> <li>• each other preference share that IAG may issue that ranks or is expressed to rank equally with the foregoing and the Capital Notes in respect of distribution or dividend or for repayment or return of capital in a winding-up of IAG (as the case may be); and</li> <li>• any securities or other instruments that rank or are expressed to rank in respect of dividend or distribution or for repayment or return of capital in a winding-up (as the case may be) equally with those preference shares and the Capital Notes.</li> </ul>
<b>Exchange Date</b>	the date on which Exchange is to occur. For the full definition – see clause 5.2(b) of the Capital Notes Terms.
<b>Exchange Method</b>	the means by which Exchange is effected. For the full definition – see clause 5.3 of the Capital Notes Terms.
<b>Exchange Notice</b>	a notice issued by IAG to a Capital Note Holder under clause 5.1 of the Capital Notes Terms.
<b>Expiry Date</b>	the date which is 13 months after 21 November 2016.
<b>Exposure Period</b>	the seven day period after the date this Prospectus was lodged with ASIC during which the Corporations Act prohibits the processing of Applications.

Term	Meaning
<b>External Administrator</b>	in respect of a person: <ul style="list-style-type: none"> <li>a liquidator, a provisional liquidator, an administrator or a statutory manager of that person; or</li> <li>a receiver, or a receiver and manager, in respect of all or substantially all of the assets and undertaking of that person,</li> </ul> or in either case, any similar official.
<b>FATCA</b>	the Foreign Account Tax Compliance Act provisions, being sections 1471 through 1474 of the United States Internal Revenue Code (including any regulations or official interpretations issued, agreements or intergovernmental agreements entered into or non-US laws enacted with respect to those provisions).
<b>FATCA Withholding</b>	any deduction or withholding imposed or required pursuant to FATCA.
<b>First Acquisition Conversion Condition</b>	see Section 2.5.3.
<b>First Mandatory Conversion Condition</b>	see clause 4.3 of the Capital Notes Terms.
<b>Foreign Capital Note Holder</b>	see Section 2.7.5.
<b>Group</b>	the statutory consolidated group comprising IAG and its subsidiaries. The Group and its activities are described in Section 3.
<b>GST</b>	has the meaning given by section 195-1 of the A New Tax System (Goods and Services Tax) Act 1999 (Cth).
<b>GWP</b>	gross written premium, meaning the total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk, and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
<b>Holder Resolution</b>	a resolution passed: <ul style="list-style-type: none"> <li>at a meeting of the Capital Note Holders, duly called and held under the Meeting Provisions: <ul style="list-style-type: none"> <li>by at least 50% of the persons voting on a show of hands (unless the second dot point below applies);</li> <li>if a poll is duly demanded, then by a majority consisting of at least 50% of the votes cast; or</li> </ul> </li> <li>by postal ballot or written resolution under the Meeting Provisions by Capital Note Holders representing (in aggregate) at least 50% of the outstanding Capital Notes.</li> </ul>
<b>Holding Statement</b>	a statement issued to Capital Note Holders by the Registrar which sets out details of Capital Notes allotted and issued to them under the Offer.
<b>IAG</b>	Insurance Australia Group Limited (ABN 60 090 739 923).
<b>Inability Event</b>	IAG is prevented by applicable law or order of any court or action of any government authority or External Administrator (including regarding the insolvency, winding-up or other external administration of IAG) or any other reason from Converting the Capital Notes.
<b>Institutional Investor</b>	an investor to whom offers or invitations in respect of the Capital Notes can be made without the need for a lodged prospectus (or other formality, other than a formality which IAG is willing to comply with), including in Australia persons to whom offers or invitations can be made without the need for a lodged prospectus under section 708 of the Corporations Act and who has been invited by the Joint Lead Managers to bid for the Capital Notes in the Bookbuild, provided that such investor may not be in the United States.
<b>Institutional Offer</b>	the invitation by the Joint Lead Managers to Institutional Investors to bid for the Capital Notes in the Bookbuild.

Term	Meaning
<b>Insurance Act</b>	Insurance Act 1973 (Cth).
<b>Issue Date</b>	the date Capital Notes are issued to Capital Note Holders under this Prospectus, expected to be 22 December 2016.
<b>Issue Date VWAP</b>	the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place on ASX immediately preceding (but not including) the Issue Date, as adjusted in accordance with clauses 8.4 to 8.7 (inclusive) of the Capital Notes Terms.
<b>Issue Price</b>	the issue price for the Capital Notes under this Prospectus, being \$100 per Capital Note.
<b>JBWere</b>	JBWere Limited (ABN 68 137 978 360).
<b>Joint Lead Managers</b>	National Australia Bank, UBS and Westpac Institutional Bank.
<b>Level 2 Insurance Group</b>	a level 2 insurance group as defined by APRA from time to time.
<b>Mandatory Conversion</b>	the mandatory conversion under clause 4 of the Capital Notes Terms. Mandatorily Convert has a corresponding meaning.
<b>Mandatory Conversion Conditions</b>	see clause 4.3 of the Capital Notes Terms.
<b>Mandatory Conversion Date</b>	the earlier of 16 June 2025 and the next Distribution Payment Date after that date on which the Mandatory Conversion Conditions are satisfied. For the full definition – see clause 4.2 of the Capital Notes Terms.
<b>Margin</b>	determined under the Bookbuild.
<b>Maximum Conversion Number</b>	see clause 8.1(a) of the Capital Notes Terms.
<b>Meeting Provisions</b>	the provisions for meetings of the Capital Note Holders set out in schedule 3 to the Trust Deed.
<b>National Australia Bank</b>	National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686).
<b>Nominated Purchaser</b>	a third party selected by IAG at its absolute discretion, subject to clause 10.3 of the Capital Notes Terms.
<b>Non-Viability Conversion</b>	the Conversion of Capital Notes to Ordinary Shares on or with effect from the Trigger Event Date in accordance with clause 6.2 of the Capital Notes Terms.
<b>Non-Viability Trigger Event</b>	see clause 6.1 of the Capital Notes Terms.
<b>Offer</b>	the offer by IAG of Capital Notes under this Prospectus to raise \$300 million with the ability to raise more or less.
<b>Offer Management Agreement</b>	the offer management agreement entered into between IAG and the Joint Lead Managers.
<b>Offer Period</b>	the period from the Opening Date to the Closing Date.
<b>Opening Date</b>	the day the Offer opens, being 29 November 2016, unless varied.
<b>Optional Exchange Date</b>	15 June 2023. For the full definition – see clause 21.2 of the Capital Notes Terms.
<b>Ordinary Share</b>	a fully paid ordinary share in the capital of IAG.
<b>Ordinary Share Dividend</b>	any interim, final or special dividend payable in accordance with the Corporations Act and the Constitution of IAG in relation to Ordinary Shares.



Term	Meaning
<b>Payment Condition</b>	<p>exists with respect to a Distribution payment on the Capital Notes on a Distribution Payment Date if:</p> <ul style="list-style-type: none"> <li>unless APRA otherwise approves in writing, paying the Distribution on the Capital Notes on the Distribution Payment Date would result in IAG or the IAG Level 2 Insurance Group not complying with APRA's then current capital adequacy requirements;</li> <li>paying the Distribution on the Distribution Payment Date would result in IAG becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or</li> <li>APRA objects to the Distribution payment on the Capital Notes on the Distribution Payment Date.</li> </ul>
<b>Potential Acquisition Event</b>	<p>broadly, occurs when:</p> <ul style="list-style-type: none"> <li>a takeover bid is made to acquire IAG's Ordinary Shares and the offer is, or becomes, unconditional and the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue or a majority of Directors recommend acceptance of the offer (without the need that all regulatory approvals necessary for the acquisition have been obtained); or</li> <li>a court orders the holding of meetings to approve a scheme of arrangement with respect to IAG which would result in a person having a relevant interest in more than 50% of the Ordinary Shares on issue after the scheme is implemented.</li> </ul> <p>For the full definition – see clause 21.2 of the Capital Notes Terms.</p>
<b>Privacy Act</b>	Privacy Act 1988 (Cth).
<b>Pro Rata Dividend</b>	the dividend accrued over the period from (and including) 1 November 2016 to (but excluding) the Reinvested CPS Buy-Back Date, in respect of each CPS on issue, expected to be paid on the Reinvested CPS Buy-Back Date, being 22 December 2016.
<b>Prospectus</b>	this document (including the electronic form of this Prospectus), and any supplementary or replacement prospectus in relation to this document, including the Capital Notes Terms.
<b>Prudential Standards</b>	the prudential standards issued by APRA which define and document APRA's framework for assessing, among other things, the capital adequacy of a general insurer.
<b>Qualified Person</b>	an entity which is a qualified person in relation to a distribution for the purposes of Division 1A of former Part IIIAA of the Income Tax Assessment Act 1936 (Cth).
<b>Record Date</b>	<p>for payment of a Distribution:</p> <ul style="list-style-type: none"> <li>subject to the point below, the date which is eight calendar days before the applicable Distribution Payment Date;</li> <li>such other date as is determined by IAG in its absolute discretion and communicated to ASX and the Trustee not less than eight calendar days before the Record Date which would have been determined under the point above; or</li> <li>such other date as may be required by, or agreed with, ASX.</li> </ul>
<b>Redeem</b>	<p>in relation to a Capital Note, to redeem that Capital Note in accordance with clause 9 of the Capital Notes Terms.</p> <p>Redeemable, Redeemed and Redemption have corresponding meanings.</p>
<b>Redemption Price</b>	see clause 9.2 of the Capital Notes Terms.
<b>Register</b>	the register of Capital Notes maintained by IAG or the Registrar on IAG's behalf and including any subregisters established and maintained in CHESS.
<b>Registrar</b>	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registrar that IAG appoints to maintain the Register.

Term	Meaning
<b>Regulatory Event</b>	<p>broadly, occurs when:</p> <ul style="list-style-type: none"> <li>IAG receives legal advice that, as a result of a change of law or regulation on or after the Issue Date, additional requirements would be imposed on IAG in relation to the Capital Notes which the Directors determine to be unacceptable; or</li> <li>the Directors determine that IAG will not be entitled to treat all Capital Notes as Additional Tier 1 Capital.</li> </ul> <p>For the full definition – see clause 21.2 of the Capital Notes Terms.</p>
<b>Reinvested CPS</b>	CPS held by an Eligible CPS Holder that are, or are to be, reinvested in Capital Notes, under the terms of the Reinvestment Offer.
<b>Reinvested CPS Buy-Back Date</b>	22 December 2016.
<b>Reinvestment Offer</b>	the invitation to Eligible CPS Holders to reinvest their CPS in Capital Notes under this Prospectus.
<b>Related Entity</b>	has the meaning given by APRA from time to time.
<b>Related Payment</b>	a related payment within the meaning of former section 160APHN of the Income Tax Assessment Act 1936 (Cth).
<b>Relevant Security</b>	an Additional Tier 1 Capital Security that, in accordance with its terms or by operation of law, is capable of being converted into Ordinary Shares or written-off upon the occurrence of a Non-Viability Trigger Event and includes, for so long as they are on issue, the CPS but does not include, for so long as they are on issue, the RES.
<b>RES</b>	reset exchangeable securities issued by IAG Finance (New Zealand) Limited in accordance with the terms of issue under a trust deed as amended on 15 December 2009.
<b>RES Preference Shares</b>	fully paid preference shares in the capital of IAG according to the terms of issue set out in appendix A of the prospectus dated 22 November 2004, as amended by appendix C of the explanatory statement dated 23 October 2009.
<b>Resale</b>	<p>the sale of a Capital Note to a Nominated Purchaser in accordance with clause 10 of the Capital Notes Terms.</p> <p>Resalable, Resell and Resold have similar meanings.</p>
<b>Resale Price</b>	for a Capital Note, a cash amount equal to its Issue Price.
<b>Scheduled Mandatory Conversion Date</b>	see clause 4.2 of the Capital Notes Terms.
<b>Second Acquisition Conversion Condition</b>	see Section 2.5.3.
<b>Second Mandatory Conversion Condition</b>	see clause 4.3 of the Capital Notes Terms.
<b>Senior Ranking Creditors</b>	<p>all creditors of IAG (present and future), including all investors in IAG's senior or subordinated debt whose claims are:</p> <ul style="list-style-type: none"> <li>entitled to be admitted in a winding-up of IAG; and</li> <li>not in respect of Ordinary Shares or Equal Ranking Instruments.</li> </ul>
<b>Shareholder</b>	a holder of an Ordinary Share(s) from time to time.

Term	Meaning
<b>Special Resolution</b>	<p>a resolution passed:</p> <ul style="list-style-type: none"> <li>at a meeting of the Capital Note Holders, duly called and held under the Meeting Provisions: <ul style="list-style-type: none"> <li>by at least 75% of the persons voting on a show of hands (unless the second dot point below applies);</li> <li>if a poll is duly demanded, then by a majority consisting of at least 75% of the votes cast; or</li> </ul> </li> <li>by postal ballot or written resolution under the Meeting Provisions by Capital Note Holders representing (in aggregate) at least 75% of the outstanding Capital Notes.</li> </ul>
<b>Syndicate Broker</b>	any of the Joint Lead Managers, Co-Managers and any other senior co-manager, co-managers and brokers appointed by the Joint Lead Managers with the approval of IAG.
<b>Tax Act</b>	both the Income Tax Assessment Act 1936 (Cth) and the Income Tax Assessment Act 1997 (Cth).
<b>Tax Event</b>	<p>broadly, occurs when the Directors receive advice that, as a result of a change in Australian tax law, or an administrative pronouncement or ruling, on or after the Issue Date, there is a more than insubstantial risk that IAG would be exposed to more than an insignificant increase in its costs in relation to the Capital Notes being on issue, any Distribution would not be a frankable distribution for tax purposes or franking credits may not be available to Australian tax resident Capital Note Holders generally.</p> <p>For the full definition – see clause 21.2 of the Capital Notes Terms.</p>
<b>Tax Rate</b>	the Australian corporate tax rate applicable to the franking account of IAG at the relevant Distribution Payment Date. At the date of this Prospectus, the relevant Tax Rate is 30% or, expressed as a decimal, 0.3 (but that rate may change).
<b>TFN</b>	tax file number.
<b>Third Mandatory Conversion Condition</b>	see clause 4.3 of the Capital Notes Terms.
<b>Tier 1 Capital</b>	Tier 1 capital as defined by APRA from time to time.
<b>Tier 2 Capital</b>	Tier 2 capital as defined by APRA from time to time.
<b>Trigger Event Date</b>	the date on which APRA notifies IAG of a Non-Viability Trigger Event as contemplated in clause 6.1 of the Capital Notes Terms.
<b>Trust Deed</b>	the deed entitled IAG Capital Notes Trust Deed dated on or about 21 November 2016 between IAG and the Trustee.
<b>Trustee</b>	The Trust Company (Australia) Limited (ABN 21 000 000 993).
<b>UBS</b>	UBS AG, Australia Branch (ABN 47 088 129 613, AFSL 231087).
<b>US Securities Act</b>	US Securities Act of 1933.
<b>VWAP</b>	subject to any adjustments under clause 8 of the Capital Notes Terms, the average of the daily volume weighted average sale prices (such average being 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 “Crossing” transacted outside the “Open Session State” or any “Special Crossing” transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

Term	Meaning
<b>VWAP Period</b>	<ul style="list-style-type: none"> <li>in the case of a Conversion resulting from a Potential Acquisition Event or an Acquisition Event the lesser of: <ul style="list-style-type: none"> <li>20 Business Days on which trading in Ordinary Shares takes place on ASX; and</li> <li>the number of Business Days on which trading in Ordinary Shares takes place that the Ordinary Shares are quoted for trading on ASX after the occurrence of the Potential Acquisition Event or Acquisition Event (as the case may be),</li> </ul> in each case immediately preceding (but not including) the Business Day before the Exchange Date or Acquisition Conversion Date in respect of that event (as the case may be);</li> <li>in the case of a Conversion resulting from a Non-Viability Trigger Event, the period of five Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Trigger Event Date;</li> <li>in the case of any other Conversion, the period of 20 Business Days on which trading in Ordinary Shares took place on ASX immediately preceding (but not including) the date on which Conversion is to occur in accordance with the Capital Notes Terms; or</li> <li>otherwise, the period for which VWAP is to be calculated in accordance with the Capital Notes Terms.</li> </ul>
<b>Westpac Institutional Bank</b>	Westpac Institutional Branch, a division of Westpac Banking Corporation (ABN 33 007 457 141, AFSL 233714).
<b>Winding-up Event</b>	the making of a court order or passing of an effective resolution for the winding-up of IAG as described in clause 17.1 of the Capital Notes Terms.
<b>Written-Off</b>	<p>in respect of a Capital Note and a Trigger Event Date:</p> <ul style="list-style-type: none"> <li>the Capital Note will not be Converted on that date and will not be Exchanged under the Capital Notes Terms on any subsequent date; and</li> <li>the relevant Capital Note Holders' rights (including to payment of Distributions and Redemption Price) in relation to such Capital Note are immediately and irrevocably terminated and written-off.</li> </ul> <p>Write-Off has a corresponding meaning.</p> <p>See Section 5.1.8.</p>

# CORPORATE DIRECTORY.

## ISSUER

**Insurance Australia Group Limited**  
Level 26  
388 George Street  
Sydney NSW 2000

## AUSTRALIAN LEGAL AND TAX ADVISER

**King & Wood Mallesons**  
Level 50, Bourke Place  
600 Bourke Street  
Melbourne VIC 3000

## AUDITOR AND ACCOUNTING ADVISER

**KPMG**  
Tower Three, International Towers Sydney  
300 Barangaroo Avenue  
Sydney NSW 2000

## REGISTRAR

**Computershare Investor Services Pty Limited**  
Level 4  
60 Carrington Street  
Sydney NSW 2000

## ARRANGER

**UBS**  
Level 16, Chifley Tower  
2 Chifley Square  
Sydney NSW 2000

## JOINT LEAD MANAGERS

**National Australia Bank Limited**  
Level 25, 255 George Street  
Sydney NSW 2000

**UBS**  
Level 16, Chifley Tower  
2 Chifley Square  
Sydney NSW 2000

**Westpac Institutional Bank**  
Level 2, Westpac Place  
275 Kent Street  
Sydney NSW 2000

## CO-MANAGERS

**Crestone Wealth Management**  
Level 32, Chifley Tower  
2 Chifley Square  
Sydney NSW 2000

**JBWere**  
Level 16  
101 Collins Street  
Melbourne VIC 3000







November 2016



# Insurance Australia Group Limited Capital Notes Offer (and CPS Reinvestment Offer)

This presentation is not an offer of, or invitation to apply for, Capital Notes and applications for Capital Notes are to be made under the Prospectus. Investors should read and consider the Prospectus in full before deciding whether to invest in the Capital Notes.

The Capital Notes are complex and involve more risks than simple debt or ordinary equity instruments. They are not suitable for all investors and contain features which may make the Capital Notes Terms difficult to understand. IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser before deciding whether to apply to participate in the Offer.

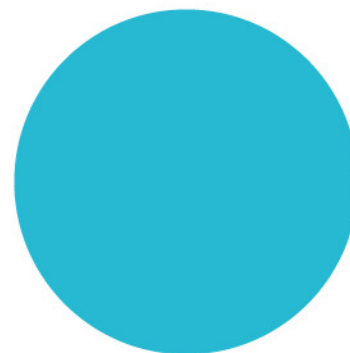
# Contents

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## Group Overview and Offer Summary



# Group overview

## General insurance group listed on ASX

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- An ASX-listed general insurance group (Group) offering personal and commercial insurance products through:
  - Leading and established brands across its home markets of Australia and New Zealand
  - A presence in Asia
- Gross written premium (GWP) over \$11 billion in the financial year ending 30 June 2016
- Employs over 15,000 people
- ASX Top 25 company with a market capitalisation of c.\$13 billion
- Regulated by Australian Prudential Regulation Authority (APRA)
- Strategic relationship with Berkshire Hathaway
- IAG issued NZ\$350 million subordinated notes to investors in New Zealand in June 2016
- IAG bought back \$314 million ordinary equity in October 2016



# IAG Capital Notes

## Offer summary

<b>Offer</b>	<ul style="list-style-type: none"> <li>Offer by Insurance Australia Group Limited (IAG) of Capital Notes</li> </ul>
<b>Offer size</b>	<ul style="list-style-type: none"> <li>\$300 million with the ability to raise more or less</li> </ul>
<b>Term</b>	<ul style="list-style-type: none"> <li>Perpetual unless Converted, Redeemed, Resold or Written-Off</li> <li>Optional Exchange on 15 June 2023 or following a Tax Event or Regulatory Event, or optional Conversion following a Potential Acquisition Event (in all cases subject to certain conditions being met)</li> <li>Mandatory Conversion on 16 June 2025 or following an Acquisition Event (in both cases subject to certain conditions being met)</li> <li>Mandatory Conversion or Write-Off following a Non-Viability Trigger Event</li> </ul>
<b>Distributions</b>	<ul style="list-style-type: none"> <li>Discretionary, non-cumulative distributions scheduled to be paid quarterly based on a floating rate (3 month Bank Bill Rate) subject to conditions and distributions are expected to be fully franked</li> <li>Margin expected to be in the range of 4.70% to 4.90% per annum</li> </ul>
<b>Ranking<sup>1</sup></b>	<ul style="list-style-type: none"> <li>In a Winding-up of IAG, Capital Notes rank: <ul style="list-style-type: none"> <li>— ahead of Ordinary Shares</li> <li>— equally among themselves and any other equal ranking instruments</li> <li>— behind all Senior Ranking Creditors of IAG</li> </ul> </li> </ul>
<b>Purpose</b>	<ul style="list-style-type: none"> <li>The Offer is to raise Additional Tier 1 Capital as part of IAG's capital management strategy</li> <li>IAG will use the proceeds of the Offer to refinance some Convertible Preference Shares issued in 2012 (CPS) and for general corporate purposes</li> </ul>
<b>Offer structure</b>	<ul style="list-style-type: none"> <li>The Offer comprises: <ul style="list-style-type: none"> <li>— an Institutional Offer made to Institutional Investors</li> <li>— a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers, and</li> <li>— a Reinvestment Offer made to Eligible CPS Holders (ASX: IAGPC)</li> </ul> </li> <li>Record date for determining Eligible CPS Holders – 7:00pm Sydney time on 18 November 2016</li> </ul>
<b>Listing</b>	<ul style="list-style-type: none"> <li>Capital Notes are expected to trade under ASX code "IAGPD"</li> </ul>

1. If, following a Non-Viability Trigger Event, Capital Notes are Converted into Ordinary Shares, Capital Note Holders will have claims as Ordinary Shareholders. If, following a Non-Viability Trigger Event, Capital Notes are Written-Off, those Capital Notes will never be Exchanged, all rights in relation to those Capital Notes will be terminated and Capital Note Holders will not have their capital repaid.





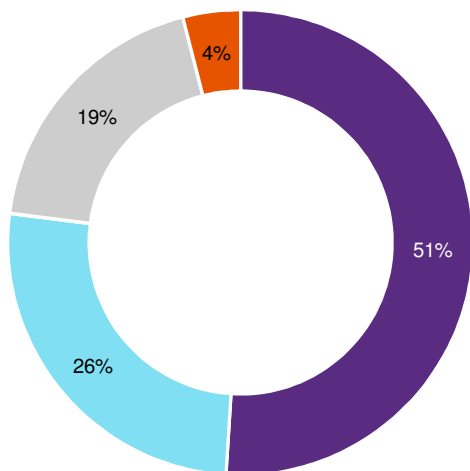
# IAG and FY16 Results



# The Group and what it does

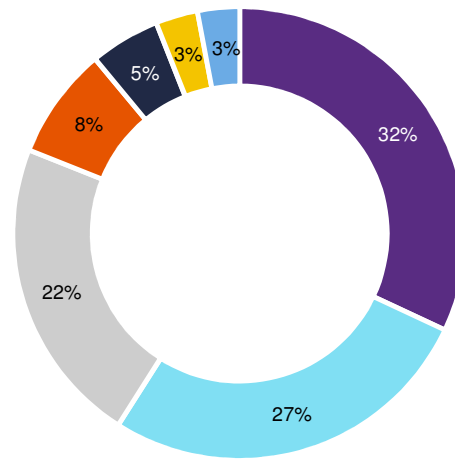
## Geographical presence and portfolio of products

**GROUP GEOGRAPHIC PRESENCE**  
% of GWP for FY16



- Australia - Consumer
- Australia - Business
- New Zealand
- Asia

**GROUP PRODUCT PORTFOLIO**  
% of GWP for FY16



- Motor
- Short-tail Commercial
- Liability
- Workers' Comp
- Home
- CTP/Motor liability
- Other Short-tail

# Operating brands

More than 90% of GWP from home markets (Australia & New Zealand)



Ownership details are available at [www.iag.com.au/about-us/what-we-do](http://www.iag.com.au/about-us/what-we-do)

# Berkshire Hathaway

## Strategic relationship established June 2015

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- A long-term strategic relationship established with Berkshire Hathaway Inc, one of the world's largest and most successful companies
- Enables both parties to draw on each other's strengths to better meet customer needs and deliver superior business outcomes
- Strengthens existing relationship and harnesses complementary capabilities of both companies
- Initial 10-year 20% quota share agreement across IAG's consolidated insurance business reduces IAG's earnings volatility and capital requirements
- Berkshire Hathaway acquired a 3.7% stake (at that time) in IAG via a \$500 million placement in June 2015



# Group financial summary – FY16

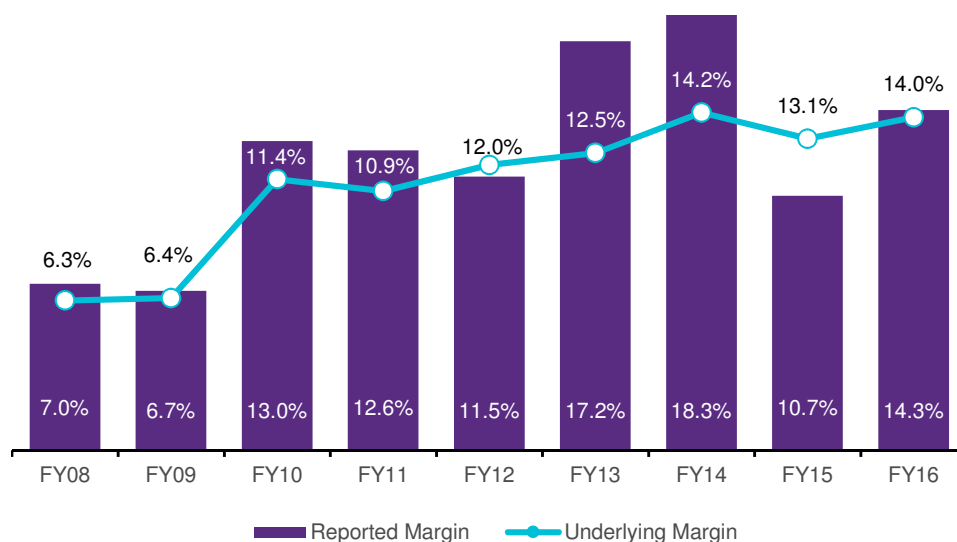
Cash ROE of 13.0%

	FY15	FY16	CHANGE
GWP (\$M)	11,440	11,367	↓ 0.6%
INSURANCE PROFIT (\$M)	1,103	1,178	↑ 6.8%
UNDERLYING MARGIN (%)	13.1	14.0	↑ 90bps
REPORTED MARGIN (%)	10.7	14.3	↑ 360bps
SHAREHOLDERS' FUNDS INCOME (\$M)	223	97	↓ 56.5%
NET PROFIT AFTER TAX (\$M)	728	625	↓ 14.1%
CASH EARNINGS (\$M)	987	867	↓ 12.2%
ORDINARY DIVIDEND (CPS)	29.0	26.0	↓ 10.3%
SPECIAL DIVIDEND (CPS)	n/a	10.0	n/a
TOTAL DIVIDEND (CPS)	29.0	36.0	↑ 24.1%
CASH ROE (%)	15.3	13.0	↓ 230bps
PCA MULTIPLE	1.70	1.72	↑ 2bps

# Underlying insurance margin

Quota share uplift of c.250bps

## INSURANCE MARGIN (REPORTED VS. UNDERLYING)



- Underlying margin of 14.0% (2H16: 13.7%)
- Favourable Berkshire Hathaway quota share effect of approximately 250bps
- Pressure on commercial lines in soft market environment
- Elevated frequency continues to impact NSW CTP profitability
- Strong returns in short-tail personal lines, despite increase in claim frequency
- Lower like-for-like reinsurance costs in soft market conditions
- Reduction in expenses—benefits from Wesfarmers integration and revised operating model

# Group results

## Divisional performance

DIVISION	FY15				FY16			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
	A\$m	%	%	%	A\$m	%	%	%
Consumer Division	5,614	5.2	15.9	13.9	5,801	3.3	19.8	16.0
Business Division	3,192	40.7	3.0	10.5	2,979	(6.7)	10.0	9.7
New Zealand	2,267	22.8	10.8	15.9	2,182	(3.7)	8.6	16.9
Asia	353	11.4	nm	nm	386	9.3	nm	nm
Corporate & Other	14	nm	nm	nm	19	nm	nm	nm
<b>Total Group</b>	<b>11,440</b>	<b>17.0</b>	<b>10.7</b>	<b>13.1</b>	<b>11,367</b>	<b>(0.6)</b>	<b>14.3</b>	<b>14.0</b>

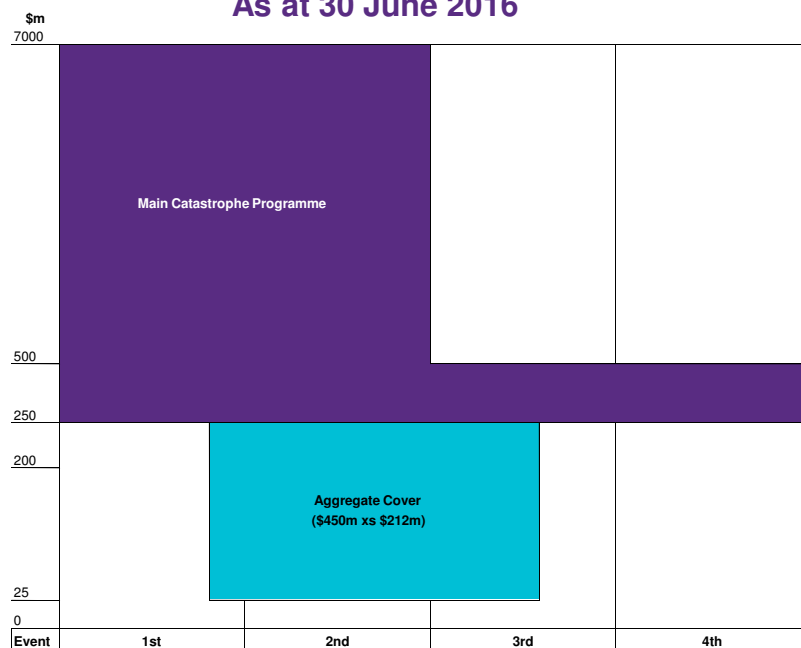
Source: IAG Investor Report FY16



# Reinsurance

## Key element of approach to capital management

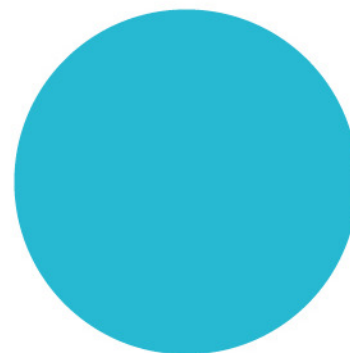
### 2016 CATASTROPHE REINSURANCE PROGRAMME As at 30 June 2016



- Calendar 2016 catastrophe cover:
  - \$7 billion of gross protection, placed to 80% (to reflect quota share)
  - Maximum Event Retention (MER) of \$200 million (post quota share)
  - For New Zealand, all amounts itemised above in respect of the catastrophe programme are denominated in NZ\$
- Although the gross cost from the recent trans-Tasman storm and New Zealand earthquake events is still uncertain, it is anticipated that a net cost of ~ \$200 million will be incurred
- Based on a maximum combined cost of \$200 million, the Group's MER becomes \$20 million in Australia and NZ\$20 million in New Zealand until 31 December 2016
- The Group continues to expect its FY17 net natural peril claim cost will be in line with its \$680m allowance.

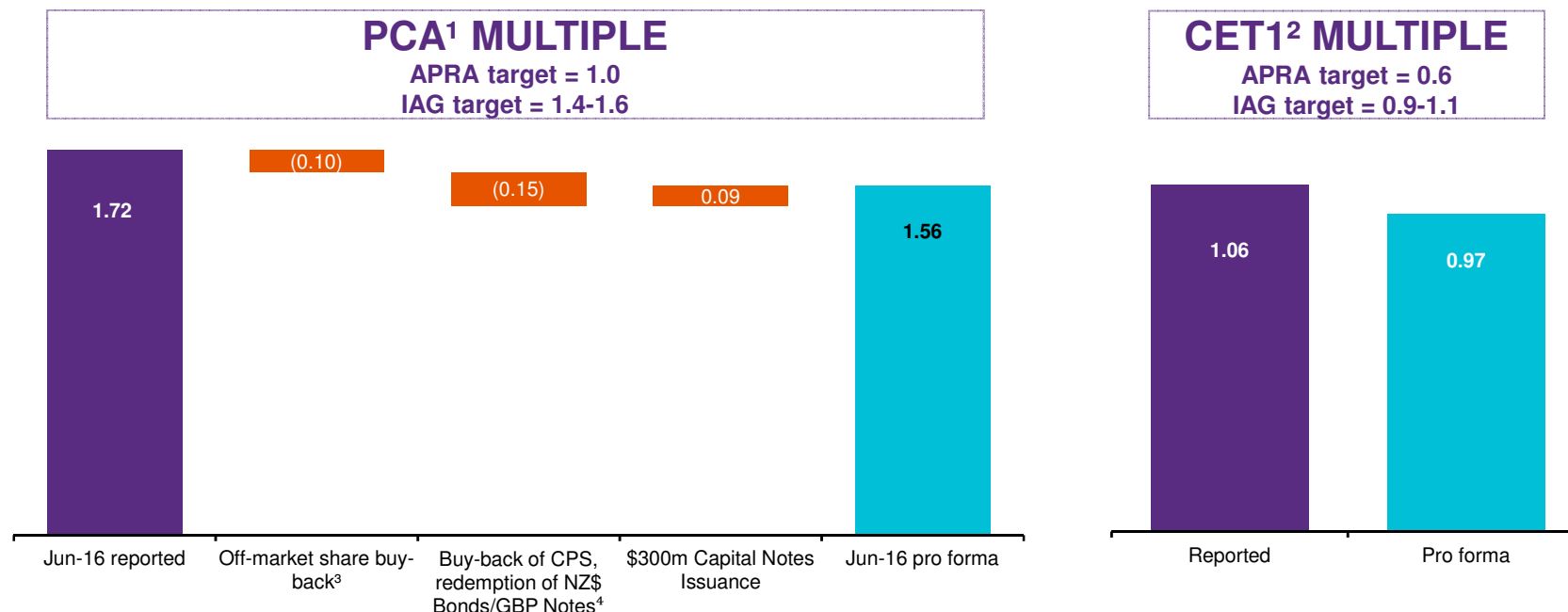


## Capital and Investments



# Group capital

Strong reported and pro forma position as at 30 June 2016



1. Prescribed Capital Amount, as prescribed by APRA, reflecting a minimum level of capital which is intended to take account of the full range of risks to which a regulated institution is exposed.

2. Common Equity Tier 1 capital of the Group as defined by APRA from time to time.

3. \$314 million off-market share buy-back (and associated transaction costs) completed on 10 October 2016.

4. Assumed buy-back of \$377m of CPS, redemption of \$179m (NZ\$187m equivalent) of 2011 NZ\$ Bonds and the redemption of \$178m (GBP100m equivalent) of 2006 GBP Notes.



# Debt and hybrid capital

## Active capital management

As at 30 June 2016	Principal		Margin/ coupon	Optional call/ exchange date
	m	\$m		
IAL Subordinated term notes <sup>1</sup>	\$350	350	+2.8% Margin	Mar 19
Subordinated fixed rate notes <sup>2</sup>	£100	178	5.625% Fixed	Dec-16
Subordinated fixed rate bonds <sup>2</sup>	NZ\$187	179	7.50% Fixed	Dec-16
Subordinated fixed rate notes	NZ\$350	335	5.15% Fixed	Jun-22
<b>Total Debt</b>		<b>1,042</b>		
Convertible Preference Shares (IAGPC)	\$377	377	+4.0% Margin	May-17
Reset Exchangeable Securities (IANG)	\$550	550	+4.0% Margin	Dec-19
<b>Total Hybrid Capital</b>		<b>927</b>		
<b>Total Debt and Hybrid Capital</b>		<b>1,969</b>		

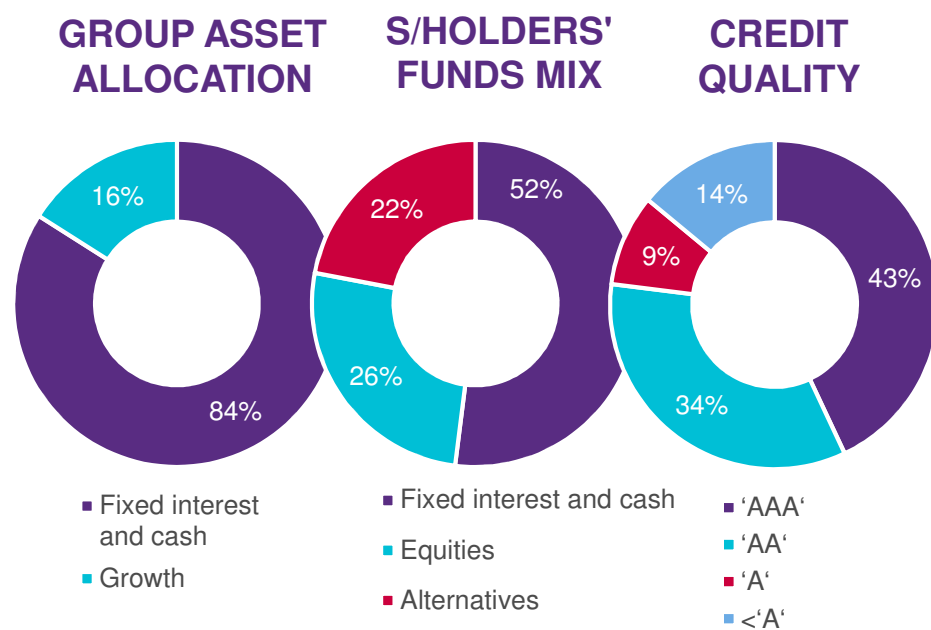
Redeeming in  
Dec 2016

Reinvestment  
Offer

1. Issued by Insurance Australia Limited (IAL) – a wholly owned IAG subsidiary
2. IAG has given notice to holders that these instruments will be redeemed on their forthcoming issuer call dates in December 2016

# Investments

## Conservative mix and high credit quality characteristics unchanged



- Total investments of \$12.9 billion as at 30 June 2016
  - Technical Reserves = \$8.7 billion
  - Shareholder's Funds = \$4.2 billion
- Over 84% of investments in fixed interest and cash
- 77% of the fixed interest and cash portfolio rated AA or higher
- Equities and Alternatives asset weighting in Shareholders' Funds of 48% at 30 June 2016
- Lower Shareholders' Funds return influenced by weak equity market performance

## Key features of the Capital Notes



# Key features

## Distributions

### Distributions

- Non-cumulative based on a floating rate (3 month Bank Bill Rate)
- Expected to be fully franked
- If a Distribution is not fully franked, the cash amount of the Distribution will be increased to compensate holders for the unfranked portion of the Distribution, subject to no Payment Conditions existing
- Distributions are scheduled to be paid on the 15th of March, June, September and December, subject to IAG's absolute discretion and no Payment Conditions existing. A Payment Condition exists where:
  - paying the Distribution would result in IAG or the IAG Level 2 Insurance Group not complying with APRA's capital adequacy requirements (unless APRA otherwise approves in writing);
  - paying the Distribution would result in IAG becoming, or being likely to become, insolvent; or
  - APRA objects to the payment

### Distribution Rate

- $\text{Distribution Rate} = (3 \text{ month Bank Bill Rate} + \text{Margin}) \times (1 - \text{Australian corporate tax rate}^1)$
- Margin to be determined through the Bookbuild and is expected to be between 4.70% and 4.90% per annum

### Dividends and Capital Restrictions


- If for any reason a Distribution is not paid then, from that Distribution Payment Date and until and including the subsequent Distribution Payment Date, IAG cannot (subject to certain exceptions):
  - declare or determine to pay or pay an Ordinary Share Dividend; or
  - undertake any buy-back or capital reduction
- Failure to pay a Distribution when scheduled will not constitute an event of default
- Distributions that are not paid do not accrue and will not be subsequently paid

1. Applicable to the franking account of IAG



# Key features

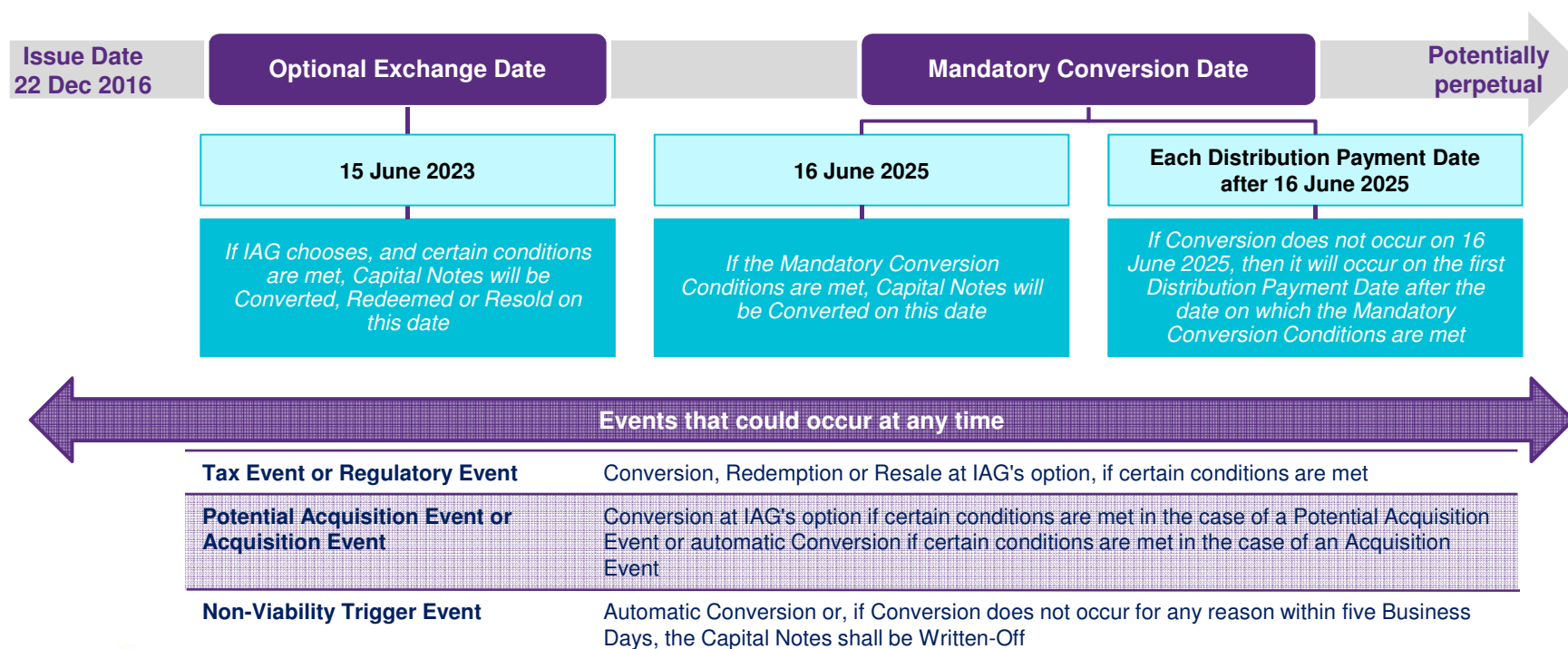
## Ranking of Capital Notes in a winding-up of IAG

Ranking	Illustrative examples	
 <p>Higher</p> <p>Lower</p>	<b>Preferred and secured debt</b>	Liabilities preferred by law including employee entitlements and secured creditors
	<b>Unsubordinated and unsecured debt</b>	Bonds and notes, trade and general creditors
	<b>Subordinated unsecured debt<sup>1</sup></b>	Subordinated unsecured debt obligations
	<b>Perpetual subordinated instruments</b>	<b>Capital Notes, CPS, RES Preference Shares (if issued), and any securities expressed to rank equally with Capital Notes</b>
	<b>Ordinary Shares</b>	Ordinary Shares

1. Tier 2 capital issued in compliance with APRA's Prudential Standards as at 1 January 2013 rank lower than Tier 2 capital issued before that time but senior to perpetual subordinated instruments (such as the Capital Notes).

# Key features

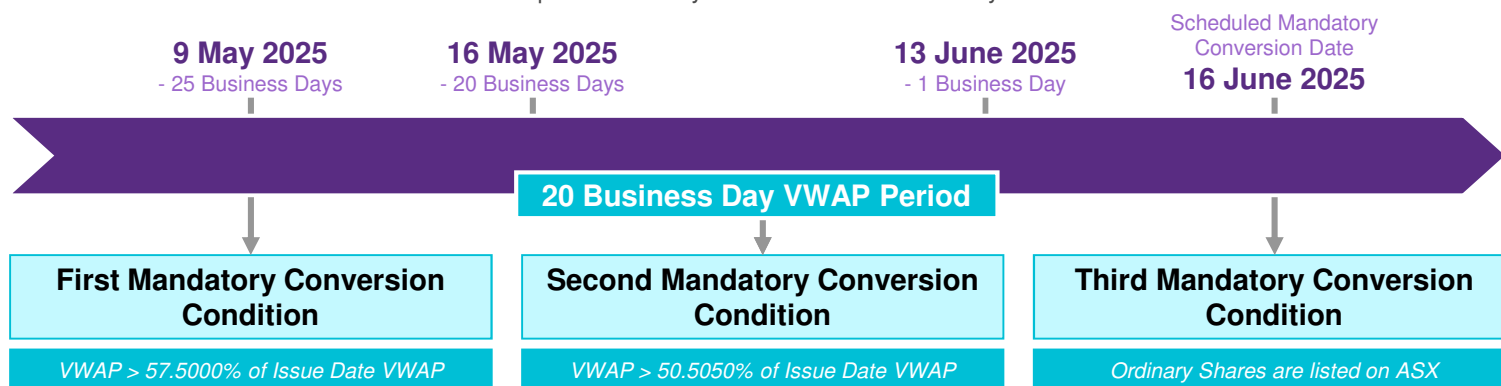
## Summary of events that may affect the Capital Notes



# Key features

## Mandatory Conversion on Mandatory Conversion Date

- On 16 June 2025, subject to satisfaction of the Mandatory Conversion Conditions illustrated below, Capital Notes will Mandatorily Convert into a variable number of Ordinary Shares at a 1% discount to the 20 day VWAP<sup>1</sup>, unless previously Exchanged or Written Off
- The number of Ordinary Shares issued following Conversion is subject to the Maximum Conversion Number
- If any of the Mandatory Conversion Conditions are not satisfied, the Mandatory Conversion Date will be deferred until the next Distribution Payment Date on which all of those conditions are satisfied. Capital Notes may remain on issue indefinitely if those conditions are not satisfied



$$\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{\text{Issue Date VWAP}^2 \times 50\%}$$

1. The VWAP during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date that is used to calculate the number of Ordinary Shares that Capital Note Holders receive will most likely differ from the Ordinary Share price on or after the Mandatory Conversion Date. This means that the value of Ordinary Shares received may be worth more or less than approximately \$101 per Capital Note when they are issued or anytime after that

2. Issue Date VWAP = VWAP during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding the Issue Date of the Capital Notes

# Key features

## Automatic Conversion on a Non-Viability Trigger Event

<b>Non-Viability Trigger Event</b>	<ul style="list-style-type: none"> <li>APRA has provided a written determination to IAG that:               <ul style="list-style-type: none"> <li>conversion or write off of Relevant Securities (including the Capital Notes) is necessary because, without it, APRA considers that IAG would become non-viable; or</li> <li>without a public sector injection of capital (or equivalent support) IAG would become non-viable</li> </ul> </li> <li>A Non-Viability Trigger Event is an APRA regulatory requirement for Capital Notes to be characterised as Additional Tier 1 Capital</li> </ul>
<b>Conversion Following a Non-Viability Trigger Event</b>	<ul style="list-style-type: none"> <li>If a Non-Viability Trigger Event occurs, IAG must immediately Convert a number of Capital Notes as is sufficient to satisfy APRA that IAG is viable without further conversion or write-off</li> <li>If the Non-Viability determination is made on the grounds that, without a public sector injection of capital (or equivalent support), IAG would become non-viable, all Capital Notes must be Converted</li> <li>On Conversion, Holders receive a variable number of Ordinary Shares (subject to the Maximum Conversion Number) at a 1% discount over the 5 day VWAP prior to the Conversion Date</li> <li>There are no conditions to Conversion following a Trigger Event</li> <li>The application of the Maximum Conversion Number means that, depending on the price of Ordinary Shares at the time of Conversion, Holders may suffer a loss as a consequence</li> </ul>
<b>Maximum Conversion Number</b>	<p>Maximum Conversion Number = <math>\frac{\text{Issue Price}}{\text{Issue Date VWAP} \times 20\%}</math></p> <ul style="list-style-type: none"> <li>Issue Date VWAP = VWAP during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding the Issue Date of the Capital Notes</li> </ul>
<b>Write-Off</b>	<p>If Capital Notes are required to be Converted on occurrence of a Non-Viability Trigger Event and Conversion has not been effected within five Business Days after the relevant Trigger Event Date for any reason, Capital Notes which would otherwise be Converted will be immediately and irrevocably terminated and Written-Off</p>

# Key features

## Optional Exchange and automatic Conversion on Acquisition Event

### Optional Exchange

IAG may choose to:

- Exchange all or some Capital Notes on 15 June 2023;
- Exchange all or some Capital Notes after a Tax Event or a Regulatory Event; or
- Convert all Capital Notes after a Potential Acquisition Event

IAG's right to elect to Exchange is subject to APRA's prior written approval and subject to restrictions in certain circumstances. Capital Note Holders should not assume that APRA will approve any Exchange

### Exchange

Exchange means:

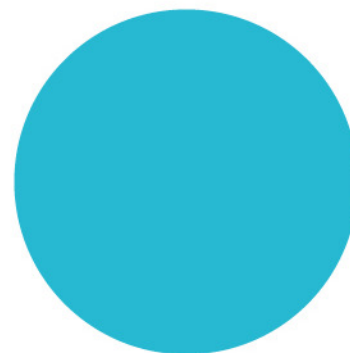
- IAG Converts Capital Notes into a variable number of Ordinary Shares with a value (based on the VWAP during a period, usually 20 Business Days, before the Exchange Date) of approximately \$101 per Capital Note, subject to the Maximum Conversion Number and provided that certain conditions are satisfied;
- IAG Redeems Capital Notes for \$100 per Capital Note;
- IAG Resells Capital Notes for \$100 per Capital Note; or
- a combination of Conversion, Redemption and Resale.

### Acquisition Event

- If an Acquisition Event (as defined in the prospectus and the terms of the Capital Notes), occurs, IAG must Convert all Capital Notes on issue into approximately \$101 worth of Ordinary Shares (based on the 20 day VWAP, subject to the Maximum Conversion Number and provided that certain conditions are satisfied).



## Reinvestment Offer



# IAG Capital Notes

## Reinvestment Offer to Eligible IAG CPS Holders

<b>What is the Reinvestment Offer?</b>	<ul style="list-style-type: none"> <li>An offer by IAG to Eligible CPS Holders to reinvest their CPS in Capital Notes</li> <li>Participating CPS will be bought back early on 22 December 2016 for \$100 each and have the buy-back proceeds (i.e. \$100 per CPS) applied to the Application Payment for Capital Notes</li> </ul>
<b>Who is an Eligible CPS Holder?</b>	<ul style="list-style-type: none"> <li>A CPS Holder who was a registered holder of IAG CPS at 7:00pm Sydney time on <b>18 November 2016</b> and is shown on the CPS register as having an address in Australia, and is not in, or acting as a nominee for a person in, the United States</li> </ul>
<b>Options for Eligible CPS holders</b>	<ul style="list-style-type: none"> <li><b>Option 1</b> - apply directly to IAG to reinvest all or some of their CPS in Capital Notes</li> <li><b>Option 2</b> - apply through a Syndicate Broker to reinvest all or some of their CPS in Capital Notes (and may also choose to apply for more Capital Notes through a Syndicate Broker)</li> <li><b>Option 3</b> - take no action and their CPS will remain on issue in accordance with their terms</li> </ul>
<b>Differences between CPS and Capital Notes</b>	<ul style="list-style-type: none"> <li>Capital Notes and CPS have different rights, benefits and risks</li> <li>A comparison of the key features is summarised on Page 7. That comparison is not intended to be exhaustive</li> </ul>
<b>What happens to CPS not reinvested?</b>	<ul style="list-style-type: none"> <li>CPS will remain on issue in accordance with their terms</li> <li>IAG may elect to exchange the CPS on 1 May 2017, but no decision has yet been made</li> </ul>



# IAG Capital Notes

## Comparison of Capital Notes to CPS

Issue differences shaded in blue

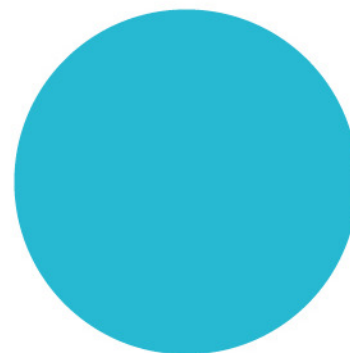
	Capital Notes	CPS
<b>Legal form</b>	Unsecured subordinated note	Preference share
<b>ASX code</b>	Expected to trade under IAGPD	IAGPC
<b>Margin</b>	Expected to be in the range of 4.70% - 4.90%	4.00%
<b>Distribution rate</b>	Floating rate, quarterly	Floating rate, semi-annual
<b>Franking</b>	Franked, subject to gross up for any non-franked portion	Franked, subject to gross up for a non-franked portion
<b>Distribution payment conditions</b>	Yes, Distributions are subject to IAG's absolute discretion and certain payment conditions	Yes, dividends are subject to IAG's absolute discretion and certain payment conditions
<b>Dividend restrictions if distributions are not paid</b>	Yes, applies to Ordinary Shares until the next Distribution Payment Date	Yes, applies to Ordinary Shares until the next dividend payment date
<b>Mandatory Conversion</b>	Yes, on 16 June 2025, subject to conditions	Yes, on 1 May 2019, subject to conditions
<b>Conversion on Non-Viability Trigger Event</b>	Yes. If not Converted within 5 business days, Capital Notes must be Written-Off, in which case their Holders' rights are terminated	Yes. If not converted within 5 business days, CPS must be written-down, in which case holders' rights become broadly equivalent to the rights they would have had if CPS had been converted into Ordinary Shares
<b>Optional Exchange<sup>1</sup></b>	On 15 June 2023, or for a Tax Event or Regulatory Event, or following a Potential Acquisition Event	On any date from 1 May 2017, or for a Tax or Regulatory Event, or following a Potential Acquisition Event
<b>Exchange method</b>	For a Tax Event or Regulatory Event Conversion, Redemption, Resale or a combination of them and, for a Potential Acquisition Event, Conversion only	Conversion, redemption or a combination of them
<b>Acquisition Event</b>	Mandatory Conversion, subject to conditions	Mandatory conversion or redemption subject to conditions
<b>Capital classification</b>	Additional Tier 1 Capital	Additional Tier 1 Capital until 1 May 2017

1. Subject to APRA's prior written approval and subject to restrictions in certain circumstances. Capital Note Holders should not assume that APRA will approve any Exchange





## Offer Process



# IAG Capital Notes

## Key dates<sup>1</sup>

Key dates for the Offer	
Lodgement of this Prospectus with ASIC	21 November 2016
Bookbuild to determine the Margin	28 November 2016
Announcement of the Margin	29 November 2016
Opening Date and lodgement of the replacement Prospectus with ASIC	29 November 2016
Closing Date for the Broker Firm Offer (excluding applications to reinvest CPS)	21 December 2016
Issue Date	22 December 2016
Commencement of deferred settlement trading	23 December 2016
Last date for despatch of Holding Statements	29 December 2016
Commencement of normal settlement trading	30 December 2016
Key dates for the Capital Notes	
First Distribution Payment Date	15 March 2017
Optional Exchange Date	15 June 2023
Mandatory Conversion Date	16 June 2025
Key dates for CPS holders	
Record date for determining Eligible CPS Holders for Reinvestment Offer	18 November 2016
Opening Date for the Reinvestment Offer	29 November 2016
Closing Date for the Reinvestment Offer	16 December 2016
Closing Date for the Broker Firm Offer (applications to reinvest CPS)	16 December 2016
Reinvested CPS Buy-Back Date and payment date for Pro Rata Dividend on Reinvested CPS	22 December 2016
First optional exchange date for remaining CPS	1 May 2017



1. These dates are indicative only and may change

# IAG Capital Notes

## Contacts

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Joint Lead Managers		
National Australia Bank	Danny Fischer + 61 2 8908 6374	William Gillespie +61 2 9936 4835
Westpac Institutional Bank	Peter Block +61 2 8253 4565	Allan O'Sullivan +61 2 8254 1425

Further information about IAG and the Capital Notes is available at [www.iag.com.au](http://www.iag.com.au).

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# Disclaimer

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The information contained in this presentation (collectively, "Information") has been prepared by Insurance Australia Group Limited (ABN 60 090 739 923) (IAG) in connection with a proposed offer of IAG Capital Notes (Capital Notes) (Offer). The Offer is being made under a prospectus which was lodged with ASIC on 21 November 2016 (Prospectus) and a replacement prospectus, which will include the Margin and Application Form, expected to be lodged with ASIC on 29 November 2016.

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Capital Notes are perpetual, convertible, subordinated debt obligations in the form of unsecured notes to be issued by IAG. Capital Notes are scheduled to Convert into Ordinary Shares on the Mandatory Conversion Date, (subject to the Mandatory Conversion Conditions being satisfied) and Capital Notes will also be Converted or Written-Off if a Non-Viability Trigger Event occurs. Capital Notes are not guaranteed or secured, are not policy liabilities of any member of the Group and are not protected policies for the purposes of the Insurance Act.

The Prospectus is important and you should read it in full before deciding whether to invest in Capital Notes. A copy of the Prospectus is available at [www.iag.com.au](http://www.iag.com.au).

If you have any questions, IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser before deciding whether to apply to participate in the Offer.

Capitalised terms used in this presentation but not otherwise defined have the meanings given in the Prospectus.