



21 November 2016

Company Announcements Office
Australian Securities Exchange
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Insurance Australia Group Limited ('IAG')

Flyer and Amended CPS Terms

IAG attaches amended CPS Terms and the Flyer being sent to eligible CPS Holders.

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris Bertuch", is shown on a light-colored background.

Chris Bertuch
Group General Counsel & Company Secretary

IAG CPS Terms

1 CPS

1.1 CPS

CPS are perpetual fully paid preference shares in the capital of Insurance Australia Group Limited (**IAG**). They are issued, and may be Redeemed or Converted, according to these CPS Terms.

1.2 Issue Price

The issue price of each CPS (**Issue Price**) is \$100.

2 Dividends

2.1 Dividends

Subject to these CPS Terms, each CPS entitles the CPS Holder on a Record Date to receive on the relevant Dividend Payment Date a dividend (**Dividend**) calculated according to the following formula:

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

where:

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

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

where:

Bank Bill Rate (expressed as a percentage per annum) means, for a Dividend Period, the average mid-rate for bills of a term of 180 days which average mid-rate is displayed on Reuters page BBSW (or any page which replaces that page) on the first Business Day of the Dividend Period or, if there is a manifest error in the calculation of that average mid-rate or that average mid-rate is not displayed by 10:30am (Sydney time) on that date, the rate specified in good faith by IAG at or around that time on that date having regard, to the extent possible, to:

- (a) the rates otherwise bid and offered for bills of a term of 180 days or for funds of that tenor displayed on Reuters page BBSW (or any page which replaces that page) at that time on that date; or
- (b) if bid and offer rates for bills of a term of 180 days are not otherwise available, the rates otherwise bid

and offered for funds of that tenor at or around that time on that date;

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

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

N means in respect of:

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

2.2 Franking adjustments

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

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

where:

D means the Dividend calculated under clause 2.1;

T has the meaning given in clause 2.1; and

F means the applicable Franking Rate.

2.3 Payment of a Dividend

Each Dividend is subject to:

- (a) the Directors, at their absolute discretion, resolving to pay the Dividend on the relevant Dividend Payment Date; and
- (b) no APRA Condition existing in respect of the relevant Dividend Payment Date.

2.4 Dividends are non-cumulative

Dividends are non-cumulative. If all or any part of a Dividend is not paid because of clause 2.3 or because of any applicable law, IAG has no liability to pay the unpaid amount of the Dividend and CPS 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 Dividends and CPS Holders have no claim or entitlement in respect of interest on any unpaid Dividends.

2.5 Dividend Payment Dates

Subject to this clause 2, Dividends will be payable in arrears on the following dates (each a **Dividend Payment Date**):

- (a) each 1 November and 1 May commencing on 1 November 2012 until (but not including) the date on which a Redemption or Conversion of that CPS occurs in accordance with these CPS Terms; ~~and~~
- (b) each date on which:
 - (i) a Conversion of that CPS occurs; and
 - (ii) subject to clause 8.3(a)(iii), a Redemption of that CPS occurs,

in each case in accordance with these CPS Terms; and

(c) in respect of the Reinvestment CPS, the Reinvestment Date.

If a Dividend Payment Date is a day which is not a Business Day, then the Dividend Payment Date becomes the next day which is a Business Day.

2.6 Record Dates

A Dividend is only payable on a Dividend Payment Date to those persons registered as CPS Holders on the Record Date for that Dividend.

2.7 Deductions

- (a) IAG may deduct from any Dividend payable the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. If any such deduction has been made and the amount of the deduction accounted for by IAG to the relevant revenue authority and the balance of the Dividend payable has been paid to the relevant CPS Holder, then the full amount payable to such CPS Holder shall be deemed to have been duly paid and satisfied by IAG.
- (b) 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 CPS Holder, deliver to that CPS Holder the relevant receipt issued by the revenue authority without delay after it is received by IAG.

2.8 Restrictions in the case of non-payment

If for any reason a Dividend has not been paid in full on a Dividend Payment Date (the **Relevant Dividend Payment Date**), IAG must not,

without approval of a Special Resolution, until and including the next Dividend Payment Date:

- (a) resolve to pay or pay a dividend or make any distribution on any Ordinary Shares; or
- (b) buy back or reduce capital on any Ordinary Shares,

unless the Dividend is paid in full within three Business Days of the Relevant Dividend Payment Date.

2.9 Exclusions from restrictions in case of non-payment

The restrictions in clause 2.8 do not apply to:

- (a) repurchases (including buy-backs), or other acquisitions of Ordinary Shares in connection with:
 - (i) 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;
 - (ii) a dividend reinvestment plan, bonus option plan, bonus share plan, shareholder share purchase plan or top-up facility, shareholder sale facility or nominee sale facility; or
 - (iii) the issuance of Ordinary Shares, or securities convertible into or exercisable for such shares, as consideration in an acquisition transaction entered into prior to non-payment of the Dividend;
- (b) an exchange or conversion of any Ordinary Shares, or any securities of a Subsidiary or of any other entity whose financial results are required to be consolidated with IAG's financial statements, for or into any class or series of IAG Shares;
- (c) the purchase of fractional interests in Ordinary Shares under the conversion or exchange provisions of the shares or the security being converted or exchanged;
- (d) any payment, distribution or declaration of a dividend in connection with any shareholder's rights plan, or the issuance of rights, shares or other property under any shareholder's rights plan, or the redemption or repurchase of rights pursuant to the plan;
- (e) any dividend in the form of shares, warrants, options or other rights where the dividend shares or the shares issuable upon exercise of such warrants, options or other rights are the same class or series of shares as those on which the dividend is being paid or rank equal to or behind those shares; or

- (f) a capital raising by way of a rights or entitlement issue made to holders of one or more capital instruments of IAG.

Nothing in these CPS 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 entities that IAG Controls 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 entity it Controls 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).

3 Mandatory Conversion

3.1 Mandatory Conversion

Subject to clause 4, clause 5 and clause 6, on the Mandatory Conversion Date IAG must Convert all (but not some) CPS on issue at that date into Ordinary Shares in accordance with clause 7 and this clause 3.

3.2 Mandatory Conversion Date

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

- (a) 1 May 2019 (the **Scheduled Mandatory Conversion Date**); and
- (b) the first Dividend 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.

3.3 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 3.3:

Conversion Test Date Percentage = $101.01\% \times \text{Relevant Fraction}$
(expressed as a percentage)

First Test Date Percentage = $115\% \times \text{Relevant Fraction}$
(expressed as a percentage)

3.4 Non-Conversion Notices

If:

- (a) the First Mandatory Conversion Condition is not satisfied in relation to a Relevant Date, IAG will give notice to CPS 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 CPS 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.

4 Non-Viability Conversion

4.1 Non-Viability Trigger Event

- (a) A **Non-Viability Trigger Event** means APRA has provided a written determination to IAG that all (or some) CPS (as specified in the determination) must be Converted:
- (i) as without the Conversion IAG would become, in APRA's opinion, non-viable; or
- (ii) as there is to occur a public sector injection of capital into, or equivalent capital support with respect to, IAG without which IAG would become, in APRA's opinion, non-viable.

4.2 Non-Viability Trigger Event Notice

- (a) If a Non-Viability Trigger Event occurs:

- (i) IAG must give notice of that event (a **Non-Viability Trigger Event Notice**) to CPS Holders within one Business Day of that event occurring;
 - (ii) IAG must state in that notice a date on which the CPS (or, as the case may be, the relevant number of CPS) will Convert (the **Non-Viability Conversion Date**) being no later than the Business Day after the earliest date allowable for Conversion under the ASX Listing Rules following the date the Non-Viability Trigger Event Notice is given; and
 - (iii) subject to clause 4.3(c), on the Non-Viability Conversion Date the CPS (or, as the case may be, the relevant number of CPS) will Convert.
- (b) If APRA has provided a written determination under clause 4.1 that requires IAG to Convert only some CPS, IAG must endeavour to treat CPS Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels and other logistical considerations.

4.3 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 3.3 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 4.2, notwithstanding anything in clauses 3.1, 5 or 6.
- (c) Subject to clause 4.3(d), if on the Non-Viability Conversion Date an Inability Event subsists, then to the extent such event prevents IAG from Converting CPS, Conversion on account of the Non-Viability Trigger Event will not occur and clause 7.13 ("Write Down") shall apply.
- (d) If before the Non-Viability Conversion Date an order is made by a court, or an effective resolution is passed, for the winding-up of IAG, then Conversion on account of the Non-Viability Trigger Event will not occur and clause 9.2 shall apply.

5 Optional Exchange by IAG

5.1 Optional Exchange by IAG

IAG may with APRA's prior written approval by notice to CPS Holders (an **Exchange Notice**) elect to Exchange:

- (a) all or some CPS on an Exchange Date following the occurrence of a Tax Event or a Regulatory Event;

- (b) all (but not some only) CPS on an Exchange Date following the occurrence of a Potential Acquisition Event; or
- (c) all or some CPS on an Optional Exchange Date.

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 clause 5.1(a) or clause 5.1(b) applies, the details of the Potential Acquisition Event, Tax Event or Regulatory 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 a Potential Acquisition Event:
 - (A) if the Exchange Notice provides that CPS are to be Converted, 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
 - (B) otherwise, must be no later than 35 Business Days after the date on which the Potential Acquisition Event occurred,

or in either case such later date as APRA may require;
 - (ii) in the case 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 CPS Holders as a whole and the relevant event; or
 - (iii) in the case of an Optional Exchange Date, the date specified in the notice which 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, and
- (B) in any case no later than 50 Business Days, after the date on which the Exchange Notice is given;
- (c) the Exchange Method in accordance with clause 5.3;
- (d) if less than all outstanding CPS are subject to Exchange, which CPS are subject to Exchange;
- (e) if the Exchange Notice provides that any CPS are to be Redeemed, whether the Redemption Price is payable by way of redemption, buy-back or reduction of capital (or a combination of these methods); and
- (f) whether any Dividend or any amount under clause 8.3(a)(iii) will be paid on the Exchange Date.

5.3 Exchange Method

- (a) If IAG elects to Exchange CPS in accordance with clause 5.1, it must, subject to paragraph (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 CPS (the **Exchange Method**):
 - (i) Convert CPS into Ordinary Shares in accordance with clause 7; or
 - (ii) Redeem CPS in accordance with clause 8.

CPS Holders should not expect that APRA's approval will be given for any Exchange of CPS under the CPS Terms.
- (b) The Exchange Method must not be Redemption unless:
 - (i) in the case of a Potential Acquisition Event, the Potential Acquisition Event has occurred on or after the fifth anniversary of the Issue Date; and
 - (ii) in any case, either:
 - (A) CPS the subject of the Exchange are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality; or
 - (B) APRA is satisfied that the Group's capital position is well above its minimum capital requirements after IAG elects to Redeem the CPS.

- (c) If IAG issues an Exchange Notice to Exchange only some CPS, subject to clause 5.3(d) IAG must endeavour to treat CPS 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 CPS are being Exchanged IAG may take into account any preference of particular CPS Holders for the Exchange Method which is to apply to some or all of their CPS (but nothing in this clause entitles a CPS 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 or clause 6 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 3, either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then, notwithstanding any other provision of these CPS Terms:

- (a) the Exchange Date will be deferred until the first Dividend Payment Date on which the Mandatory Conversion Conditions would be satisfied if that Dividend Payment Date were a Relevant Date for the purposes of clause 3 (the **Deferred Conversion Date**);
- (b) IAG must Convert the CPS on the Deferred Conversion Date (unless the CPS are earlier Exchanged in accordance with these CPS Terms); and
- (c) until the Deferred Conversion Date, all rights attaching to the CPS will continue as if the Exchange Notice had not been given.

IAG will notify CPS 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 Early Exchange on Acquisition Event

6.1 Notice of Acquisition Event

IAG must notify CPS Holders of the occurrence of an Acquisition Event as soon as practicable after becoming aware of that event (an **Acquisition Event Notice**).

6.2 Exchange on occurrence of Acquisition Event

If an Acquisition Event occurs, IAG must, subject to obtaining the prior written approval of APRA for any Redemption, Exchange all (but not some only) CPS on the Acquisition Exchange Date by notice to CPS Holders (an **Acquisition Exchange Notice**) in accordance with this clause 6 and clause 7 or clause 8 (as the case may be).

CPS Holders should not expect that APRA's approval will be given to any Redemption of CPS under the CPS Terms.

6.3 Contents of Acquisition Exchange Notice

An Acquisition Exchange Notice must specify:

- (a) the details of the Acquisition Event to which the Acquisition Exchange Notice relates;
- (b) the date on which Exchange is to occur (the **Acquisition Exchange Date**), which must be:
 - (i) if the Exchange Notice provides that CPS are to be Converted, 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
 - (ii) otherwise, no later than 35 Business Days after the date on which the Acquisition Event occurred,or in either case such later date as APRA may require;
- (c) the Exchange Method, subject:
 - (i) to the extent Redemption is specified, to the Acquisition Event having occurred on or after the fifth anniversary of the Issue Date and the condition in clause 5.3(b)(ii) being met; and
 - (ii) to the extent Conversion is specified, to clause 5.4;

- (d) if the Acquisition Exchange Notice provides that any CPS are to be Redeemed, whether the Redemption Price is payable by way of redemption, buy-back or reduction of capital (or a combination of these methods); and
- (e) whether any Dividend or any amount under clause 8.3(a)(iii) will be paid on the Acquisition Exchange Date.

6.4 Where Acquisition Exchange Notice not required

Notwithstanding any other provision of clause 6.2 or clause 6.3, if APRA does not approve Redemption as the Exchange Method (or IAG is not permitted to elect Redemption in accordance with clause 6.3(c)) and IAG is prevented from electing Conversion as the Exchange Method by clause 5.4, IAG is not required to give an Acquisition Exchange Notice and the provisions of clause 6.5 will apply.

6.5 Deferred Exchange on Acquisition Event

If clause 6.4 applies or IAG has given an Acquisition Exchange Notice in which it has specified to any extent Conversion as the Exchange Method but, if the Acquisition Exchange Date were a Relevant Date for the purposes of clause 3, the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then, notwithstanding any other provision of these CPS Terms (but without limitation to the operation of clause 4.3):

- (a) the Acquisition Exchange Notice, if given, is taken to be revoked and Exchange will not occur on the Acquisition Exchange Date specified in the Acquisition Exchange Notice;
- (b) IAG will notify CPS Holders as soon as practicable that Exchange will not (or, as the case may be, did not) occur (a **Deferred Acquisition Exchange Notice**); and
- (c) IAG must, unless clause 6.4 then applies, give an Acquisition Exchange Notice (or, as the case may be, a new Acquisition Exchange Notice) on or before the 25th Business Day prior to the immediately succeeding Dividend Payment Date which is at least 25 Business Days after the date on which the Deferred Acquisition Exchange Notice was given.

The Acquisition Exchange Notice given in accordance with paragraph (c) above must:

- (d) specify the Exchange Method, subject:
 - (i) to the extent Redemption is specified, to the prior written approval of APRA and the conditions referred to in clause 6.3(c) being met; and
 - (ii) to the extent Conversion is specified, to clause 5.4; and
- (e) otherwise comply with clause 6.3.

If this clause 6.5 applies but:

- (i) clause 6.4 applies in respect of the Dividend Payment Date such that no Acquisition Exchange Notice (or, as the case may be, no new Acquisition Exchange Notice) is given under this clause 6.5; or
- (ii) an Acquisition Exchange Notice (or, as the case may be, a new Acquisition Exchange Notice) is given under this clause 6.5 but, if the Acquisition Exchange Date specified in the Acquisition Exchange Notice were a Relevant Date for the purpose of clause 3, either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date,

then this clause 6.5 will be reapplied in respect of each subsequent Dividend Payment Date until an Exchange occurs.

7 Conversion mechanics

7.1 Conversion

If IAG elects to Convert CPS (with APRA's prior written approval) or must Convert CPS in accordance with these CPS Terms, then, subject to this clause 7, the following provisions apply:

- (a) each CPS that is being Converted will Convert into one Ordinary Share on the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Exchange Date (as the case may be);
- (b) each CPS Holder will be allotted, for no consideration, an additional number of Ordinary Shares for each CPS that is being Converted on the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Exchange Date (as the case may be) equal to **one less than** the Conversion Number, where the Conversion Number is a number calculated according to the following formula (subject to clause 7.12 and 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:

$$\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{(\text{Issue Date VWAP} \times \text{Relevant Fraction})}$$

where:

Relevant Fraction means 0.5 or, once the Australian Basel III Rules are implemented and CPS Holders have been notified in writing by IAG that such other percentage is to be applied, 0.2 (or the lowest other fraction less than 0.5 as is permitted by APRA under the Australian Basel III Rules).

- (c) if the total number of additional Ordinary Shares to be allotted to a CPS Holder in respect of their aggregate holding of CPS upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded; and
- (d) a CPS, upon Conversion, confers all of the rights attaching to one Ordinary Share but these rights do not take effect until 5:00pm (Sydney time) on the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Exchange Date (as the case may be). At that time:
 - (i) all other rights conferred or restrictions imposed on that CPS under these CPS Terms will no longer have effect (except for rights relating to a Dividend which has been determined to be payable but has not been paid on or before the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Exchange Date (as the case may be) which will continue); and
 - (ii) the Ordinary Share resulting from a Conversion will rank equally with all other Ordinary Shares.

Conversion does not constitute a redemption, buy-back, cancellation or termination of CPS or an issue, allotment or creation of a new Ordinary Share (other than the additional Ordinary Shares allotted under clause 7.1(b)).

7.2 Adjustments to VWAP

For the purposes of calculating VWAP in these CPS 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 CPS 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 that would be

included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;

- (ii) (in the case of any other entitlement that is not a dividend or other distribution under clause 7.2(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 the Directors; 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 CPS 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.

7.3 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 to 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 7.3(a) will be effective and binding on CPS Holders under these CPS Terms and these CPS Terms will be construed accordingly. Any such adjustment must be promptly notified to all CPS Holders.

7.4 Adjustments to Issue Date VWAP

For the purposes of determining the Issue Date VWAP, adjustments to VWAP will be made in accordance with clause 7.2 and clause 7.3 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 7.5 to 7.7 (inclusive); and
- (b) if so made, will correspondingly affect the application of the Mandatory Conversion Conditions and the Optional Conversion Restrictions, and cause an adjustment to the Maximum Conversion Number.

7.5 Adjustments to Issue Date VWAP for bonus issues

- (a) Subject to clause 7.5(b) below, 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:

$$V = V_o \times \frac{RD}{RD + RN}$$

where:

V means the Issue Date VWAP applying immediately after the application of this formula;

V_o 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) Clause 7.5(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 7.5(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 7.5 for any offer of Ordinary Shares not covered by clause 7.5(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 7.5(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 CPS Holders or otherwise requiring any consent or concurrence.

7.6 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 division, consolidation or reclassification of IAG's share capital (not involving any cash payment or other distribution to Ordinary Shareholders) (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 7.6(a) will be effective and binding on CPS Holders under these CPS Terms and these CPS Terms will be construed accordingly.
- (c) Any such adjustment must be promptly notified to all CPS Holders.
- (d) Each CPS 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 CPS Holders or otherwise requiring any consent or concurrence.

7.7 No adjustment to Issue Date VWAP in certain circumstances

Despite the provisions of clauses 7.5 and 7.6, 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.

7.8 Announcement of adjustments

IAG will notify CPS Holders (an **Adjustment Notice**) of any adjustment to the Issue Date VWAP or in the Relevant Fraction under this clause 7

within 10 Business Days of IAG determining the adjustment and the adjustment set out in the announcement will be final and binding.

7.9 Ordinary Shares

Each Ordinary Share issued or arising upon Conversion ranks *pari passu* with all other fully paid Ordinary Shares.

7.10 Foreign CPS Holders

Where CPS held by a Foreign CPS Holder are to be Converted, unless IAG is satisfied that the laws of the Foreign CPS Holder's country of residence permit the issue of Ordinary Shares to the Foreign CPS 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 CPS Holder is obliged to accept will be issued to a nominee 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 CPS Holder accordingly.

7.11 Listing Ordinary Shares issued on Conversion

IAG shall use all reasonable endeavours to list the Ordinary Shares issued upon Conversion of the CPS on ASX.

7.12 Adjustment to clause 7.1(b) where Latest Equity Issue Price is available

If CPS are to be Converted on account of a Non-Viability Trigger Event and on the Non-Viability Conversion Date a Delisting Event is subsisting:

- (a) where there is a Latest Equity Issue Price, the formula for determining the Conversion Number in clause 7.1(b) is varied by replacing "99% x VWAP" with the price which is the Latest Equity Issue Price; and
- (b) where there is no Latest Equity Issue Price, the formula for determining the Conversion Number is the formula in clause 7.1(b),

where:

Latest Equity Issue Price means if, between the last day of the VWAP Period in relation to the Conversion and the Business Day immediately preceding (but not including) the Non-Viability Conversion Date, IAG has publicly announced an issue of Ordinary Shares at a price per Ordinary Share of less than the VWAP that would otherwise apply to the Conversion, that price.

7.13 Write Down

Where on the Non-Viability Conversion Date an Inability Event subsists (unless before the Non-Viability Conversion Date an order is made by a court or an effective resolution is passed for the winding-up of IAG), to the

extent such event prevents IAG from Converting CPS which, but for clause 4.3(c) and this clause 7.13, would be Converted, CPS will be Written Down on the Non-Viability Conversion Date. In this clause 7.13 “**Written Down**” means that, in respect of a CPS and a Non-Viability Conversion Date:

- (a) the CPS will not be Converted on that date and will not be Converted or Redeemed under these CPS Terms on any subsequent date (except for a conversion as described in clause 7.13(d));
- (b) the rights attached to the CPS are on and from the Non-Viability Conversion Date automatically varied without CPS Holder or Ordinary Shareholder approval such that:
 - (i) in a winding-up of IAG, the Liquidation Sum is the sum which would have been paid in respect of the CPS out of the surplus available to shareholders in a winding-up as if the CPS were the Conversion Number of Ordinary Shares; and
 - (ii) subject to clause 2.3, 2.4 and 2.7, a non-cumulative dividend is payable in respect of the CPS if and when a dividend is paid on Ordinary Shares, in an amount determined as if the CPS were a number of Ordinary Shares equal to the Conversion Number,

in each case with that Conversion Number (the **Fixed Conversion Number**) being finally determined as if the CPS had Converted on the Non-Viability Conversion Date (and subject always to such number not exceeding the Maximum Conversion Number);

- (c) on and from that variation taking effect clauses 2.1, 2.2, 2.5, 2.8, 3, 4 (other than clause 4.3(c)), 5, 6, 7 (other than this clause 7.13 and any provisions in clause 7 required to give effect to this clause 7.13) and 8 will no longer apply; and
- (d) if after that variation takes effect IAG ceases to be subject to an Inability Event, as soon as reasonably practicable after that occurs IAG shall convert the CPS at that time into the Fixed Conversion Number of Ordinary Shares by Converting the CPS by some other lawful method of effecting conversion.

8 Redemption mechanics

8.1 Redemption mechanics to apply to Redemption

If, subject to APRA’s prior written approval and compliance with the conditions in clause 5.2(c) and clause 6.3(c), IAG elects to Redeem CPS in accordance with these CPS Terms, the provisions of this clause 8 apply to that Redemption.

CPS Holders should not expect that APRA’s approval will be given for any Redemption of CPS under the CPS Terms.

8.2 Redemption

CPS will be Redeemed by payment on the Exchange Date or the Acquisition Exchange Date (as the case may be) of the Issue Price plus any amount payable under clause 8.3(a)(iii) (together, the **Redemption Price**) by way of redemption, buy-back, reduction of capital or any combination thereof to the CPS Holder.

8.3 Effect of Redemption on CPS Holders

On the Exchange Date or the Acquisition Exchange Date (as the case may be) the only right CPS Holders will have in respect of CPS will be to obtain the Redemption Price payable in accordance with these CPS Terms and upon payment of the Redemption Price, all other rights conferred, or restrictions imposed, by CPS will no longer have effect.

For the purposes of this clause 8:

- (a) where the Redemption involves a buy-back of CPS:
 - (i) the Exchange Notice or the Acquisition Exchange Notice (as the case may be) constitutes a buy-back offer for the Redemption Price payable on the relevant Exchange Date or Acquisition Exchange Date (as the case may be);
 - (ii) the CPS Holder must accept the buy-back offer for their CPS and will be deemed to have accepted that buy-back offer for CPS held by that CPS Holder to which the Exchange Notice or the Acquisition Exchange Notice (as the case may be) relates on the date the Exchange Notice or the Acquisition Exchange Notice (as the case may be) is given and will be deemed to have sold those CPS to IAG free of all Encumbrances on the Exchange Date or the Acquisition Exchange Date (as the case may be);
 - (iii) no Dividend is payable on CPS on the Exchange Date or the Acquisition Exchange Date (as the case may be), but the Directors may, in their absolute discretion, determine that the consideration payable for each CPS that is bought back will include an amount (in addition to the Issue Price) equal to a Dividend calculated in accordance with clause 2 for the Dividend Period ending on (but not including) the Exchange Date or the Acquisition Exchange Date (as the case may be);
 - (iv) the buy-back agreement will be taken to include IAG's undertaking in clause 2.8 (as qualified by clause 2.9); and
 - (v) for the purposes of calculating the Redemption Price, any suspension of the right to receive a Dividend arising from the buy-back agreement under applicable law shall be disregarded; and
- (b) if the Redemption involves either or both a reduction of capital with respect to CPS and a cancellation of CPS and under applicable law CPS Holders are entitled to vote on a resolution to approve that reduction of capital or that

cancellation, each CPS Holder agrees to vote in favour of that or those resolutions.

9 CPS general rights

9.1 Ranking

The CPS rank in respect of payment of dividends:

- (a) in priority to Ordinary Shares and other instruments or securities of IAG that rank or are expressed to rank behind the CPS;
- (b) equally among themselves and with all Equal Ranking Instruments; and
- (c) behind any securities or instruments that rank in priority to the CPS and behind all IAG's debts and liabilities to its creditors, both unsubordinated and subordinated, other than indebtedness that by its terms ranks equally with or behind the CPS.

9.2 Ranking in a winding-up

- (a) In a winding-up of IAG, a CPS confers upon the CPS Holder the right to payment in cash of the Liquidation Sum out of the surplus (if any) available for distribution to shareholders, but no further or other right to participate in the assets of IAG on a return of capital in the winding-up.
- (b) CPS Holders will rank for payment of the Liquidation Sum in a winding-up of IAG:
 - (i) in priority to Ordinary Shares and other securities that IAG has issued or may issue that by their terms rank behind the CPS;
 - (ii) equally among themselves and with all Equal Ranking Instruments; and
 - (iii) behind any securities or instruments that rank in priority to the CPS and behind all IAG's debts and liabilities to its creditors, both unsubordinated and subordinated, other than indebtedness that by its terms ranks equally with or behind the CPS in a winding-up.
- (c) The **Liquidation Sum** is an amount out of surplus assets equal to \$100 plus the amount of any Dividend determined to be paid but unpaid.

9.3 Further issues not to vary class rights

The allotment or issue of preference shares (including further CPS), or the conversion of existing shares into preference shares, ranking behind, equally with or in priority to the CPS then on issue for participation in

profits or assets of IAG, and whether entitled to cumulative or non-cumulative dividends, or a redemption, buy-back or return or distribution of capital in respect of any share capital other than a CPS, whether ranking behind, equally with, or in priority to, the CPS, is expressly permitted and authorised by these CPS Terms and does not constitute a modification or variation of the rights or privileges to the CPS then on issue.

9.4 No set-off or offsetting rights

A CPS Holder:

- (a) may not exercise any right of set-off against IAG in respect of any claim by IAG against that CPS Holder; and
- (b) will have no offsetting rights or claims on IAG if IAG does not pay a Dividend when scheduled under CPS.

IAG may not exercise any right of set-off against a CPS Holder in respect of any claim by that CPS Holder against IAG.

9.5 No security

CPS are unsecured.

9.6 Shortfall on winding-up

If, upon a return of capital on a winding-up of IAG, there are insufficient funds to pay in full the Liquidation Sum and the amounts payable in respect of any other shares in IAG ranking equally with CPS on a winding-up of IAG, CPS Holders and the holders of any such other shares will share in any distribution of assets of IAG in proportion to the amounts to which they are entitled respectively.

9.7 No participation in surplus assets

CPS do not confer on their CPS Holders any further right to participate in the surplus assets of IAG on a winding-up beyond payment of the Liquidation Sum.

9.8 Power of attorney

- (a) Each CPS Holder appoints each of IAG, its officers and any External Administrator of IAG (each an **Attorney**) severally to be the attorney of the CPS Holder with power in the name and on behalf of the CPS 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 CPS Holder to observe or perform the CPS Holder's obligations under these CPS Terms including, but not limited to, accepting any buy-back offer, effecting any transfers of CPS, making any entry in the Register or exercising any voting power in relation to any consent or approval required for Conversion or Redemption.

- (b) The power of attorney given in this clause 9.8 is given for valuable consideration and to secure the performance by the CPS Holder of the CPS Holder's obligations under these CPS Terms and is irrevocable.

9.9 CPS Holder acknowledgements

Each CPS Holder irrevocably:

- (a) upon Conversion of a CPS in accordance with clause 7, 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 CPS including:
 - (i) any change in the financial position of IAG since the Issue Date;
 - (ii) any disruption to the market or potential market for the Ordinary Shares or to capital markets generally; or
 - (iii) any breach by IAG of any obligation in connection with CPS;
- (c) acknowledges and agrees that:
 - (i) where clause 4.2 applies, there are no other conditions to a Non-Viability Conversion occurring as and when provided in clauses 4.1 to 4.3 (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 6 are the conditions expressly applicable to such Conversion as provided in clauses 5 and 6 of these CPS Terms and no other conditions or events will affect Conversion; and
 - (iv) where clause 7.13 applies, no other conditions or events will affect the operation of that clause;
- (d) agrees to provide to IAG any information necessary to give effect to a Conversion and, if applicable, to surrender any certificate relating to the CPS on the occurrence of the Conversion; and
- (e) acknowledges and agrees that:
 - (i) a CPS Holder has no right to request an Exchange;
 - (ii) a CPS 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 Dividend when scheduled in respect of CPS; and

- (iii) these CPS Terms contain no events of default. Accordingly (but without limitation) failure to pay in full, for any reason, a Dividend on the scheduled Dividend Payment Date will not constitute an event of default.

9.10 No other rights

- (a) CPS do not confer on CPS Holders any right to participate in profits or property of IAG except as set out in these CPS Terms.
- (b) CPS do not confer on CPS Holders any right to subscribe for new securities in IAG or to participate in any bonus issues of shares in IAG's capital.

9.11 Transfers and transmission

The Constitution contains provisions relating to:

- (a) the transfer of shares; and
- (b) the transmission of shares in certain circumstances (including without limitation on the death of a holder),

and the relevant provisions apply with all necessary modifications to a transfer of CPS.

10 Voting rights and meetings

10.1 Voting rights

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

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

- (d) during the winding-up of IAG.

Each CPS Holder who has a right to vote on a resolution is entitled to the number of votes specified in Article 11.23 of the Constitution (or any provision or provisions that revise or replace that Article).

10.2 Notices and reports

Each CPS Holder is entitled to receive notice of any general meeting of IAG and a copy of every circular and like document sent out by IAG to Ordinary Shareholders and to attend and speak at general meetings of IAG.

11 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 then, if the Directors consider that IAG will not be permitted to elect to Exchange the CPS in accordance with clause 5 or clause 6 or the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition will not be satisfied in respect of the Acquisition Exchange Date in accordance with clause 6, the Directors will use all reasonable endeavours to procure that equivalent takeover offers are made to CPS Holders or that they are entitled to participate in the scheme of arrangement or a similar transaction.

12 Notices

12.1 Notices to CPS Holders

A notice or other communication is properly given by IAG to a CPS Holder if it is:

- (a) in writing signed on behalf of IAG (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;

- (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.

12.2 Delivery of certain notices

Notwithstanding clause 12.1, a Non-Conversion Notice, a Deferred Conversion Notice, a Deferred Acquisition Exchange Notice, an Exchange Notice, an Acquisition Event Notice, an Acquisition Exchange Notice, a Non-Viability Trigger Event Notice, an Adjustment Notice and an IAG Details Notice may each be given to CPS Holders by IAG publishing the notice on its website and announcing the publication of the notice to ASX.

12.3 When notices to CPS Holders take effect

Notices or other communications from IAG to CPS Holders take effect on the day the notice or communication was delivered, sent or published on IAG's website (as applicable under clauses 12.1 and 12.2).

12.4 Non-receipt of notice by a CPS Holder

The non-receipt of a notice or other communication by a CPS Holder or an accidental omission to give notice to a CPS Holder will not invalidate the giving of that notice either in respect of that CPS Holder or generally.

12.5 Notices to IAG

A notice or other communication given to IAG in connection with CPS must be:

- (a) in legible writing or typing and in English;
- (b) 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 to such other address or fax number as IAG notifies to CPS Holders as its address or fax number (as the case may be) for notices or other communications in respect of these CPS Terms from time to time (an **IAG 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 fax to the fax number in accordance with clause 12.5(b).

12.6 When notices to IAG take effect

Notices or other communications from CPS Holders to IAG take effect from the time they are received unless a later time is specified in them.

12.7 Deemed receipt of notices to IAG

A letter or facsimile is taken to be received:

- (a) in the case of a posted letter, on the third (seventh if posted to or from a place outside Australia) day after posting; and
- (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.

Despite paragraphs (a) or (b), if a letter or facsimile 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.

13 Payments and other matters

13.1 Manner of payment to CPS Holders

All monies payable by IAG to a CPS Holder may be paid in any manner IAG decides, including:

- (a) by any method of direct credit determined by IAG to the CPS Holder or CPS Holders shown on the Register or to such person or place directed by them;
- (b) by cheque sent through the post directed to the physical or postal address of the CPS Holder as shown in the Register or, in the case of joint CPS Holders, to the physical or postal address notified to the Registrar for receipt of such monies (and in default of notification, to the physical or postal address shown in the Register as the address of the joint CPS Holder first named in that Register); or
- (c) by cheque sent through the post directed to such other physical or postal address as the CPS Holder or joint CPS Holders in writing direct.

13.2 Unpresented cheques

Cheques issued by IAG that are not presented within six months of being issued or such lesser period as determined by IAG may be cancelled. Where a cheque which is cancelled was drawn in favour of a CPS Holder, the monies are to be held by IAG for the CPS Holder as a non-interest bearing deposit or paid by IAG according to the legislation relating to unclaimed monies.

13.3 Unsuccessful attempts to pay

Subject to applicable law and the ASX Listing Rules, where IAG:

- (a) decides that an amount is to be paid to a CPS Holder by a method of direct credit and the CPS Holder has not given a direction as to where amounts are to be paid by that method; or
- (b) attempts to pay an amount to a CPS Holder by direct credit, electronic transfer of funds or any other means and the transfer is unsuccessful; or
- (c) has made reasonable efforts to locate a CPS Holder but is unable to do so,

the amount is to be held by the payer for the CPS Holder as a non-interest bearing deposit until the CPS Holder or any legal personal representative of the CPS Holder claims the amount. If monies or equivalent securities payable to the CPS Holder under the CPS have not been claimed by the CPS Holder or any legal personal representative of the CPS Holder for a period of 12 months after first becoming payable, those monies or equivalent securities shall become the property of IAG.

13.4 Payment to joint CPS Holders

A payment to any one of joint CPS Holders will discharge IAG's liability in respect of the payment.

13.5 Time limit for claims

A claim against IAG for payment according to these CPS Terms is void, to the fullest extent permitted by applicable law, unless made within five years of the due date for payment.

13.6 Calculations and rounding of payments

Unless otherwise specified in these CPS Terms:

- (a) all calculations of amounts payable in respect of a CPS will be rounded to four decimal places; and
- (b) for the purposes of making payment to a CPS Holder in respect of the CPS Holder's aggregate holding of CPS, any fraction of a cent will be disregarded.

14 Amendment of these CPS Terms

14.1 Amendment without consent

Subject to complying with all applicable laws and with APRA's prior written approval, IAG may amend these CPS Terms without the approval of CPS 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 CPS 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 7; or
 - (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 an IAG Entity); 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 CPS Holders as a whole.

14.2 Amendment with consent

Without limiting clause 14.1, IAG may, with APRA's prior written approval, amend these CPS Terms if the amendment has been approved by a Special Resolution.

14.3 Notification of Amendment to APRA

IAG will promptly notify APRA of any amendments made in accordance with this clause 14.

14.4 Meaning of amend and amendment

In this clause 14, **amend** includes modify, cancel, alter or add to and **amendment** has a corresponding meaning.

15 Quotation on ASX

IAG must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure, at its own expense, quotation of CPS on ASX.

16 Governing law and jurisdiction

16.1 Governing law

These CPS Terms are governed by the laws in force in New South Wales.

16.2 Jurisdiction

IAG and each CPS 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 CPS Terms.

17 Interpretation and definitions

17.1 Interpretation

- (a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these CPS Terms and the Constitution then, to the maximum extent permitted by law, the provisions of these CPS Terms will prevail.
- (b) Unless otherwise specified, the Directors may exercise all powers of IAG under these CPS Terms as are not, by the Corporations Act or by the Constitution, required to be exercised by IAG in general meeting.
- (c) Unless otherwise specified, a reference to a clause is a reference to a clause of these CPS Terms.
- (d) If a calculation is required under these CPS Terms, unless the contrary intention is expressed, the calculation will be rounded to four decimal places.
- (e) Subject to clause 17.1(a), definitions and interpretation under the Constitution will also apply to these CPS Terms unless the contrary intention is expressed.
- (f) The terms takeover bid, relevant interest, scheme of arrangement, buy-back, related body corporate and on-market buy-back when used in these CPS Terms have the meaning given in the Corporations Act.
- (g) Headings and boldings are for convenience only and do not affect the interpretation of these CPS Terms.
- (h) The singular includes the plural and vice versa.
- (i) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (j) If an event under these CPS Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.

- (k) A reference to dollars, AUD, A\$, \$ or cents is a reference to the lawful currency of Australia.
- (l) Any reference to any requirements of APRA or any other prudential regulatory requirements in these CPS 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.
- (m) Any requirement for APRA's consent or approval in any provision of these CPS Terms will apply only if APRA requires that such consent or approval be given at the relevant time.
- (n) A reference to any term defined by APRA (including, without limitation, "Level 2", "Minimum Capital Requirement" "Residual Tier 1 Capital", "Tier 1 Capital", and "Upper Tier 2 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.
- (o) A reference to a term defined by the ASX Listing 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.
- (p) 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 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).
- (q) Calculations, elections and determinations made by IAG under these CPS Terms are binding on CPS Holders in the absence of manifest error.
- (r) Where IAG is required to give or serve a notice by a certain date under these CPS 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.
- (s) Where a CPS Holder is required to give or deliver a notice to IAG by a certain date under these CPS Terms, the notice must be received by IAG by that date.

17.2 Definitions for CPS Terms

Acquisition Event means:

- (a) a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and:

- (i) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or
- (ii) the Directors issue a statement that at least a majority of its 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 6.1.

Acquisition Exchange Date has the meaning given in clause 6.3.

Acquisition Exchange Notice has the meaning given in clause 6.2.

Adjustment Notice has the meaning given in clause 7.8.

APRA means the Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of IAG or the Group.

APRA Condition means, with respect to a Dividend payment on the CPS on a Dividend Payment Date:

- (a) unless APRA otherwise approves in writing:
 - (i) paying the Dividend on the CPS on the Dividend Payment Date would result in the Minimum Capital Requirement of the Group not complying with APRA's then current capital adequacy guidelines as they are applied to the Group at the time; or
 - (ii) the Dividend payment on the CPS on the Dividend Payment Date would exceed Distributable Profits as at the Record Date for the Dividend payment;
- (b) paying the Dividend would result in IAG becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or
- (c) APRA objecting to the Dividend payment on the CPS on the payment date.

ASX means ASX Limited (ABN 98 008 624 691).

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.

Attorney has the meaning given in clause 9.8.

Australian Basel III Rules means the final form of prudential rules applied to entities regulated by APRA resulting from the Basel III Consultation Papers.

Bank Bill Rate has the meaning given in clause 2.1.

Basel III Consultation Papers means the document “Basel III: A global regulatory framework for more resilient banks and banking systems” released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and any related releases, papers, proposals (including, without limitation, the release of 13 January 2011) and any related prudential standards or guidelines of the Basel Committee on Banking Supervision or APRA as applicable to general insurers and their authorised non-operating holding companies (including, without limitation, APRA’s Response to Submissions in relation to the Review of capital standards for general insurers and life insurers dated 9 December 2011).

Bookbuild means the process conducted prior to the opening of the Offer whereby certain investors lodge bids for CPS and, on the basis of those bids, IAG and the joint lead managers to the Offer determine the Margin.

Business Day means a business day as defined in the ASX Listing Rules.

CHES means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Collection of Data Act means the Financial Sector (Collection of Data) Act 2001 (Cth).

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 CPS, subject to amendment in accordance with clause 14.1(a)(v), the taking effect of the rights specified in clause 7 in relation to that CPS, and **Convert** and **Converted** have corresponding meanings.

Conversion Number has the meaning given in clause 7.1(b).

Conversion Test Date Percentage has the meaning given in clause 3.3.

Corporations Act means the Corporations Act 2001 (Cth).

CPS has the meaning given in clause 1.1.

CPS Holder means a person whose name is registered as the holder of a CPS.

CPS Terms means these terms of issue of CPS.

Cum Value has the meaning given in clause 7.2.

Deferred Acquisition Exchange Notice has the meaning given in clause 6.5.

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.

Distributable Profits means the Group's after-tax earnings determined in a manner consistent with the Group's prudential reporting to APRA under the Collection of Data Act (but determined before any interest, dividends or distributions paid or payable by a member of the Group on its Tier 1 Capital or Upper Tier 2 Capital) for the last two six monthly periods for which the Group was required to submit semi-annual returns according to reporting standards made under the Collection of Data Act less the aggregate amount of interest, dividends or other distributions paid or payable by a member of the Group on its Tier 1 Capital or Upper Tier 2 Capital (including any Dividend but not including a dividend or distribution paid or payable to a member of the Group by another member of the Group) in the 12 month period up to and including the relevant Dividend Payment Date.

Dividend has the meaning given in clause 2.1.

Dividend Payment Date has the meaning given in clause 2.5 whether or not a Dividend is paid on that date.

Dividend Period means in respect of:

- (a) the first Dividend Period, the period from (and including) the Issue Date until (but not including) the first Dividend Payment Date following the Issue Date; and
- (b) each subsequent Dividend Period, the period from (and including) the preceding Dividend Payment Date until (but not including) the next Dividend Payment Date.

Dividend Rate has the meaning given in clause 2.1.

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 payment of dividends or the return of capital in a winding-up:

- (a) RPS;
- (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 CPS in respect of 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 for the return of capital in a winding-up (as the case may be) equally with those preference shares and the CPS.

Exchange means Conversion in accordance with and subject to clause 7 or Redemption in accordance with and subject to clause 8, 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.

First Mandatory Conversion Condition has the meaning given in clause 3.3.

First Optional Conversion Restriction has the meaning given in clause 5.4.

First Test Date has the meaning given in clause 3.3.

First Test Date Percentage has the meaning given in clause 3.3.

Fixed Conversion Number has the meaning given in clause 7.13(b).

Foreign CPS Holder means a CPS 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 Dividend Payment Date.

Group means the group comprised of each IAG Entity which is treated by APRA as forming the Level 2 insurance group of IAG.

IAG means Insurance Australia Group Limited (ABN 60 090 739 923).

IAG Details Notice has the meaning given in clause 12.5.

IAG Entity means IAG and each of its related bodies corporate.

IAG Shares means Ordinary Shares or any other shares in the capital of IAG.

Inability Event means IAG is prevented by applicable law or order of any court or action of any government authority (including regarding the insolvency winding-up or other external administration of IAG) or any other reason from Converting the CPS.

Issue Date means the date on which CPS are issued.

Issue Date VWAP means the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the first date on which any CPS were issued, as adjusted in accordance with clauses 7.4 to 7.7 (inclusive).

Issue Price has the meaning given in clause 1.2.

Latest Equity Issue Price has the meaning given in clause 7.12.

Level 2 means a level 2 insurance group as defined by APRA from time to time.

Liquidation Sum has the meaning given in clause 9.2(c) (as it may be affected by clause 7.13).

Mandatory Conversion means the mandatory conversion under clause 3 of CPS to Ordinary Shares on the Mandatory Conversion Date.

Mandatory Conversion Conditions has the meaning given in clause 3.3.

Mandatory Conversion Date has the meaning given in clause 3.2.

Margin has the meaning given in clause 2.1.

Maximum Conversion Number has the meaning given in clause 7.1(b).

Minimum Capital Requirement means that requirement as defined by APRA from time to time, or any successor requirement as designated by APRA.

Non-Conversion Notice has the meaning given in clause 3.4.

Non-Conversion Test Date has the meaning given in clause 5.4.

Non-Viability Conversion means the Conversion of CPS to Ordinary Shares on the Non-Viability Conversion Date in accordance with clause 4.2.

Non-Viability Conversion Date has the meaning given in clause 4.2.

Non-Viability Trigger Event has the meaning given in clause 4.1.

Non-Viability Trigger Event Notice has the meaning given in clause 4.2.

Offer means the invitation under the Prospectus made by IAG for persons to subscribe for CPS.

Optional Conversion Restrictions has the meaning given in clause 5.4.

Optional Exchange Date means the first Dividend Payment Date falling on or after the fifth anniversary of the Issue Date and any date after that date as specified in an Exchange Notice.

Ordinary Share means a fully paid ordinary share in the capital of IAG.

Ordinary Shareholder means a person whose name is registered as the holder of an Ordinary Share.

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.

Prospectus means the prospectus for the Offer including these CPS Terms.

Record Date means for payment of:

- (a) a Dividend (other than a Dividend payable in respect of a Reinvestment CPS on a Reinvestment Date), the date which is seven calendar days before the Dividend Payment Date for that Dividend (or, in the case of the first Dividend Payment Date, if the Issue Date is less than seven calendar days before the first Dividend Payment Date, the Issue Date); and
 - ~~(a)~~(b) a Dividend payable in respect of Reinvestment CPS on the Reinvestment Date, the date falling prior to the Reinvestment Date which is determined by the Directors to be the Record Date for that Dividend,
- ~~(b)~~ or in any case such other date as may be required by ASX.

Redeem means, in relation to a CPS, redeem, buy back (other than an on-market buy-back within the meaning of the Corporations Act) or reduce capital, or any combination of such activities, in connection with that CPS in accordance with clause 8, and **Redeemed**, **Redeemable** and **Redemption** have corresponding meanings.

Redemption Price has the meaning given in clause 8.2.

Register means the register of CPS maintained by or on behalf of IAG and including any subregister established and maintained in CHESS.

Registrar means IAG or any other registrar that maintains the Register.

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 prospective change) in any law or regulation or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations (including, without limitation, any such action arising as a result of the Basel III Consultation Paper which applies to IAG or any other member of the Group) which amendment, clarification or change is effective, or pronouncement, action or decision is announced, on or after the Issue Date, additional requirements would be imposed on IAG in relation to or in connection with CPS which the Directors determine, at their absolute discretion, to be unacceptable; or
- (b) the determination by the Directors that IAG is not or will not be entitled to treat some or all CPS as Residual Tier 1 Capital (including, without limitation, as a result of the Australian Basel III Rules which apply to IAG or any other member of the Group), except where the reason IAG is not entitled to treat some or all CPS as Residual Tier 1 Capital is because IAG has exceeded a limit on the recognition of Residual Tier 1

Capital which was in effect on the Issue Date (including without limitation a limit arising on or from a given date under the Basel III Consultation Paper which is known as at the Issue Date).

Reinvestment CPS means the CPS of a CPS Holder which IAG may buy back in accordance with the terms of the Reinvestment Offer.

Reinvestment Date means the date of issue of the Reinvestment Securities.

Reinvestment Offer means the offer made, with the prior written approval of APRA, by IAG of securities:

- (a) each having an issue price equal to the Issue Price of the CPS;
- (b) pursuant to the Reinvestment Prospectus; and
- (c) on terms that provide for the application price of the security to be funded by the buy-back price of Reinvestment CPS.

Reinvestment Prospectus means the prospectus lodged with ASIC on or about 21 November 2016, including any replacement prospectus for the offer of securities, and may include application forms accompanying that prospectus.

Reinvestment Securities means those securities to be issued by IAG to CPS Holders pursuant to the Reinvestment Offer, to the extent that those CPS Holders have applied to participate in the Reinvestment Offer and those applications have been accepted by IAG.

Relevant Date has the meaning given in clause 3.2.

Relevant Dividend Payment Date has the meaning given in clause 2.8.

Relevant Fraction has the meaning given in clause 7.1.

Reorganisation has the meaning given in clauses 7.3(a) and 7.6(a).

Residual Tier 1 Capital means the residual tier 1 capital of the Group as defined by APRA from time to time (and includes a reference to “Additional Tier 1 Capital” as described in the Basel III Consultation Papers).

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 amended and restated trust deed dated 11 December 2009 relating to RES made between IAGFNZ, IAG and Trust Company Fiduciary Services Limited (ABN 21 000 000 993).

RPS means the reset preference shares issued by IAG according to the terms of issue set out in appendix A of the prospectus dated 6 May 2002.

Scheduled Mandatory Conversion Date has the meaning given in clause 3.2.

Second Mandatory Conversion Condition has the meaning given in clause 3.3.

Second Optional Conversion Restriction has the meaning given in clause 5.4.

Second Test Period has the meaning given in clause 3.3.

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

Subsequent Mandatory Conversion Date has the meaning given in clause 3.2.

Subsidiary has the meaning given in the Corporations Act.

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 announced prospective change), in the laws or treaties or any regulations of Australia or any political subdivision or taxing authority of Australia affecting taxation;
- (b) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (**Administrative Action**); or
- (c) any amendment to, clarification of, or change in, an Administrative Action that provides for a position that differs from the current generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known, which amendment, clarification, change or Administrative Action is effective, or which pronouncement or decision is announced, on or after the Issue Date, there is more than an insubstantial risk which the Directors determine (having received all approvals they consider in their absolute discretion to be necessary (including from APRA)) 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) in relation to CPS; or
- (ii) any Dividend 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 CPS Holders generally would not be entitled to franking credits in respect of the Dividends.

Third Mandatory Conversion Condition has the meaning given in clause 3.3.

Tier 1 Capital means the tier 1 capital of the Group as defined by APRA from time to time.

Upper Tier 2 Capital means the upper tier 2 capital of the Group as defined by APRA from time to time.

VWAP means, subject to any adjustments under clause 7, 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; 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 Exchange 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 five Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Non-Viability Conversion Date;
- (c) in the case of any other Conversion, the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the date on which Conversion is to occur in accordance with these CPS Terms;
or
- (d) otherwise, the period for which VWAP is to be calculated in accordance with these CPS Terms.

Written Down has the meaning given in clause 7.13.



IAG

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21 November 2016

IAG announces Capital Notes Offer

Insurance Australia Group Limited (“IAG”) today announced an offer 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 (“Offer”). The Offer is being made under a prospectus lodged with ASIC and ASX today (“Prospectus”).

The Offer includes a reinvestment offer providing certain holders of IAG convertible preference shares issued in 2012 (“CPS”) the opportunity to reinvest their CPS into Capital Notes (“Reinvestment Offer”).

The purpose of this letter is to inform you, as a CPS holder, of the Reinvestment Offer and to communicate how you can participate after reading the Prospectus. Participation in the Reinvestment Offer is voluntary.

Are you 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 (Sydney time) 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.

How does the Reinvestment Offer work?

If you are eligible, you may apply for some or all of your CPS to be bought back early for \$100 each on 22 December 2016 and for the buy-back proceeds (i.e. \$100 per CPS) to be applied as the Application Payment for Capital Notes. This means that no separate Application Payment is required 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.

Where to get more information?

If you are interested in learning more, you must read the Prospectus which has more information about the Offer, the Reinvestment Offer and how to participate.

In addition, 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 or the Reinvestment Offer.

How to participate

If you would like to participate, please follow these steps:

1. Obtain the Prospectus

- As an Eligible CPS Holder, a copy of the Prospectus and an Application Form will be sent to you on or around 2 December 2016.
- You can also download the Prospectus from IAG's website **www.iag.com.au** or request a free paper copy of the Prospectus and an Application Form (available after 29 November 2016) 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).

2. Read the Prospectus

The Prospectus contains details of the Offer and the Reinvestment Offer. You should read the Prospectus carefully before deciding whether to participate as the Capital Notes are complex and involve more risks than simple debt or ordinary equity instruments.

3. Decide whether to participate

Participation in the Offer is voluntary.

You may apply to participate in the Reinvestment Offer by submitting an application directly to IAG or through a Syndicate Broker once the Offer opens. More information about the options available is outlined in Section 6 of the Prospectus, including how to apply for additional Capital Notes. Further details on how to apply to participate in the Reinvestment Offer are in Section 7 of the Prospectus.

Applications can be submitted online at **www.iag.com.au** or on the personalised Application Form that will be sent to you on or around 2 December 2016.

If you do not wish to participate in the Offer, 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.

Key Dates

18-Nov-16	Record date for determining Eligible CPS Holders for the Reinvestment Offer
29-Nov-16	Opening Date for the Reinvestment Offer
16-Dec-16	Closing Date for the Reinvestment Offer
22-Dec-16	For successful reinvestment applications (and assuming the Capital Notes issue proceeds): • Reinvested CPS Buy-Back Date • Payment date for the Pro Rata Dividend on Reinvested CPS • Capital Notes Issue Date

Important information

The information presented here is current as at 21 November 2016. Applications will only be considered where applicants have applied pursuant to an Application Form attached to, or accompanied by, a copy of the Prospectus. 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. This document does not provide financial product advice or investment advice and IAG is not making any recommendation or giving any advice on the value of CPS, or whether (or how) you should sell your CPS. This document has been prepared without taking into account your particular investment objectives or circumstances. 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 document and not otherwise defined have the meaning given to them in the Prospectus.