

INSURANCE AUSTRALIA GROUP LIMITED

INVESTMENT STATEMENT FOR AN OFFER OF UNSECURED SUBORDINATED BONDS

NOVEMBER 2011

Joint Lead Arrangers



Joint Lead Managers



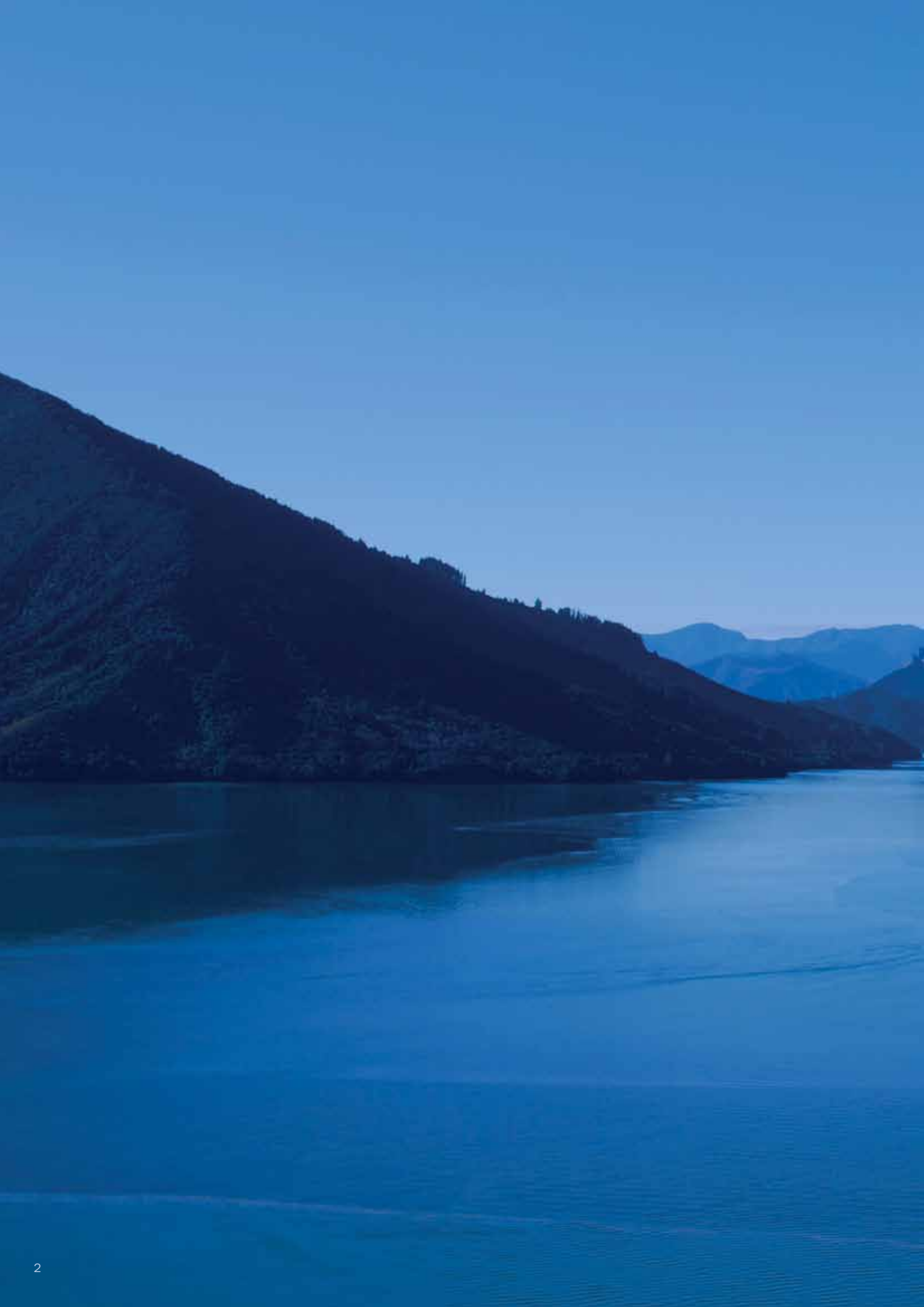
Co-Managers





**THIS IS AN
INVESTMENT
STATEMENT FOR
THE PURPOSES OF
THE SECURITIES
ACT 1978. THIS
INVESTMENT
STATEMENT IS DATED
AND HAS BEEN
PREPARED AS AT
4 NOVEMBER 2011.
IT IS AN IMPORTANT
DOCUMENT AND
SHOULD BE READ
IN ITS ENTIRETY.**





IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978.) Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

| | Page |
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| What sort of investment is this? | 31 |
| Who is involved in providing it for me? | 32 |
| How much do I pay? | 35 |
| What are the charges? | 36 |
| What returns will I get? | 36 |
| What are my risks? | 38 |
| Can the investment be altered? | 42 |
| How do I cash in my investment? | 43 |
| Who do I contact with inquiries about my investment? | 44 |
| Is there anyone to whom I can complain if I have problems with the investment? | 44 |
| What other information can I obtain about this investment? | 45 |

In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to www.fma.govt.nz.

Financial advisers can help you make investment decisions

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice, you should check:

- the type of adviser you are dealing with;
- the services the adviser can provide you with; and
- the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at www.fspr.govt.nz.

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

IMPORTANT NOTICE

THE PURPOSE OF THIS INVESTMENT STATEMENT IS TO PROVIDE INFORMATION THAT IS LIKELY TO ASSIST A PRUDENT BUT NON-EXPERT PERSON DECIDE WHETHER OR NOT TO SUBSCRIBE FOR THE BONDS.

Offer of the Bonds

This Investment Statement relates to an offer of the Bonds. The Bonds are unsecured, subordinated, fixed rate debt securities offered by Insurance Australia Group Limited (**IAG**). IAG is the ultimate parent company of a group of insurance companies operating primarily in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom (the **Group**).

All of the Bonds may be reserved for subscription by clients of the Joint Lead Managers or Co-Managers, institutional investors and other approved financial intermediaries. The aggregate number of Bonds so reserved will be determined by the Joint Lead Arrangers and IAG on or before the Opening Date. The Joint Lead Arrangers and IAG will determine the arrangements for Bonds not subject to Firm Allocations (if any) following the bookbuild and will announce those arrangements on or prior to the Opening Date.

Other important information

Investors should note that other important information about the Bonds and the Offer is contained in the Prospectus and the Bond Trust Deed. Copies of these documents may be obtained free of charge from the Registrar or any of the Joint Lead Managers, whose contact details are listed in the *Directory* at the back of this Investment Statement.

Selling restrictions

The Offer is only available to the public and institutions in New Zealand and to investors in other jurisdictions where the Bonds may be lawfully offered. No action has been or will be taken by IAG which would permit an offer of the Bonds to the public, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). The Bonds may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold, distributed or delivered. No Bondholder, or any other person, may purchase, offer, sell, distribute or deliver the Bonds, or have in its possession, publish, deliver or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.

Without limiting the above:

- the Bonds have not been registered under the US Securities Act of 1933 (**US Securities Act**) or the securities laws of any state of the United States and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any US person (as defined in Regulation S under US Securities Act), except pursuant to an effective registration statement or in accordance with an available exemption from the registration requirements of the US Securities Act; and
- no prospectus or other disclosure document (as defined in the Australian Corporations Act 2001 (**Corporations Act**)) in relation to the Bonds has been or will be lodged with the Australian Securities and Investments Commission (**ASIC**) and offers of the Bonds for issue or sale in Australia are restricted to offers over A\$500,000. Accordingly, no person appointed in connection with the distribution of the Bonds and no Bondholder shall:

- make or invite an offer of the Bonds for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); or
- distribute or publish any draft, preliminary or definitive information memorandum, offering circular, prospectus, investment statement or any other offering material or advertisement relating to any Bonds in Australia,

unless:

- the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternate currency) (disregarding moneys lent by the offeror or its associates); and
- such action complies with all applicable laws, regulations and directives in Australia and does not require any document to be lodged with ASIC.

By purchasing the Bonds, each Bondholder is deemed to have indemnified IAG, the Joint Lead Managers, the Joint Lead Arrangers and the Trustee for any loss suffered by any of them by reason of any breach of the above selling restrictions.

Credit rating and distribution restrictions in Australia

Any credit rating in respect of any Bonds or IAG is for distribution in Australia only to persons who are not a "retail client"

within the meaning of section 761G of the Corporations Act and who are also sophisticated investors, professional investors or other investors in respect of whom disclosure is not required under Part 6D.2 of the Corporations Act and, in all cases, in such circumstances as may be permitted by applicable law in any jurisdiction in which an investor may be located. Anyone in Australia who is not such a person is not entitled to receive this Investment Statement and anyone who receives this Investment Statement must not distribute it to any person who is not entitled to receive it.

Non-reliance

Neither this Investment Statement nor the Prospectus constitutes a recommendation by IAG, the Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers, the Trustee, or any of their respective directors, officers, employees or agents to subscribe for, or purchase, any of the Bonds. None of the Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers, the Trustee or any of their respective directors, officers, employees or agents accepts any liability whatsoever for any loss arising from this Investment Statement, the Prospectus or their contents or otherwise arising in connection with the offer of the Bonds.

The Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers and the Trustee have not independently verified the information contained in this Investment Statement. In accepting delivery of this Investment Statement, the recipient acknowledges that none of

the Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers, the Trustee or their respective officers, employees, agents or advisers gives any warranty or representation of accuracy or reliability and they take no responsibility for it. They shall not have any liability for any errors or omissions (including for negligence) in this Investment Statement, and each recipient waives all claims in that regard.

None of the Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers, the Trustee or any of their respective directors, officers, employees, or agents guarantees the payment of interest or principal or any other amounts due under the Bonds or the amount of returns which investors may receive as Bondholders.

Definitions

Capitalised terms used in this Investment Statement have defined meanings which appear in the *Glossary* from page 59. All references to the **Conditions** are to the terms and conditions of the Bonds, which are contained in the Bond Trust Deed and are summarised under *Summary of terms and conditions* of the Bonds from page 47. All references to time are to New Zealand time.

All references in this Investment Statement to NZ\$, NZD and cents are to New Zealand currency, any reference to A\$ and AUD is to Australian currency and any reference to £ is to United Kingdom currency, unless otherwise stated. Additionally, any reference in this Investment Statement to credit ratings is to be construed in accordance with Standard & Poor's ratings criteria.

Important note concerning references to IAG and the Group

The Bonds are issued by IAG, a company incorporated in Australia which is the ultimate parent company of a group of insurance companies operating primarily in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom.

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

The Bonds are not guaranteed by any of IAG's subsidiary companies. This Investment Statement describes the activities and the financial performance and position of the Group because:

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



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CHAIRMAN'S LETTER

4 November 2011

Dear Investor

On behalf of the directors, it is my pleasure to invite you to apply for Bonds issued by Insurance Australia Group Limited (**IAG**).

IAG intends to issue up to NZ\$150 million of Bonds with the ability to accept up to a further NZ\$100 million in oversubscriptions (**Offer**).

The benefits to Bondholders of the offer include:

- fixed quarterly interest payments as outlined in this Investment Statement;
- the opportunity to invest in Bonds issued by the ASX-listed parent of a leading general insurance group in Australia and New Zealand with a growing presence in Asia and a specialist underwriter in the United Kingdom (**Group**);
- listing and quotation on NZDX; and
- a credit rating of 'A-' assigned to the Bonds by Standard & Poor's.

In New Zealand, the Group's businesses, which include State and NZI, have a deep heritage dating back 150 years. These businesses are some of the country's leading providers of general insurance, distributing products both directly to customers and indirectly through insurance brokers and agents. The Bonds continue the Group's long, distinguished and proud association with New Zealand and represent IAG's first New Zealand public security offering.

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

IAG's approach to capital management has enabled the Group to retain an above-benchmark capital position, despite the claim costs incurred by the Group associated with the recent concentration of natural perils. These events include the Christchurch earthquakes and weather related events in Australia. IAG manages the impact of such events through comprehensive high quality reinsurance cover and diversification of risk.

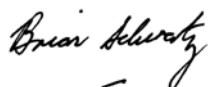
IAG has a right to redeem the Bonds on 15 December 2016 and quarterly thereafter until their legal maturity on 15 December 2036. IAG may also redeem the Bonds in certain other circumstances prior to maturity.

I encourage you to read this Investment Statement and the Prospectus carefully before deciding whether to invest in the Bonds.

The key dates of the Offer are summarised on page 13. We encourage you to lodge your application as soon as possible as interest will be payable on subscriptions from the day your application moneys are banked.

On behalf of the directors, I look forward to welcoming you as an investor in the Bonds.

Yours faithfully



Brian Schwartz
Chairman



SUMMARY OF THE TERMS OF THE OFFER

| | |
|--------------------------|---|
| Issuer | Insurance Australia Group Limited (IAG). A description of IAG and the Group is included in the <i>Corporate profile</i> on page 15. |
| Description of the Bonds | The Bonds are unsecured, subordinated, fixed rate debt obligations of IAG. The Bonds are not guaranteed by any other member of the Group or by any other person. |
| Subordination | The rights and claims of Bondholders against IAG are subordinated to the claims of Senior Creditors. Please refer to <i>Answers to important questions</i> 1.3. |
| Use of net proceeds | The Bonds are to be issued as part of the Group's normal capital management strategy. The net proceeds of the Bonds will be used for general corporate purposes and may be used to refinance existing borrowings of IAG and the Group. |
| Issue amount | Up to NZ\$150 million, with the ability to accept up to an additional NZ\$100 million in oversubscriptions. Oversubscriptions, if accepted, will be allocated at the discretion of the Joint Lead Arrangers and IAG. |
| Credit rating | <p>IAG has a credit rating of 'A+' from Standard & Poor's, with a stable outlook.</p> <p>As subordinated obligations of IAG, the Bonds have been assigned a credit rating of 'A-' by Standard & Poor's.</p> <p>A credit rating is not a recommendation to invest in Bonds and may be subject to revision, suspension or withdrawal at any time.</p> |
| Call Dates | 15 December 2016 (the First Call Date) and each Interest Payment Date thereafter. IAG has the right to redeem all or part of the Bonds on a Call Date, subject to obtaining the prior written approval of the Australian Prudential Regulation Authority (APRA) and any other regulatory and legal requirements being met. |
| Maturity Date | 15 December 2036. |
| Redemption by IAG | <p>If not previously redeemed, the Bonds must be repaid on the Maturity Date.</p> <p>If the Bonds are redeemed on the First Call Date or any subsequent Rate Reset Date, Bondholders will receive their Principal Amount, plus any accrued interest unpaid.</p> <p>If the Bonds are redeemed on any other Interest Payment Date following the First Call Date which is not a Rate Reset Date, Bondholders will receive the greater of the:</p> <ul style="list-style-type: none"> • Principal Amount, plus any accrued interest unpaid; and • Market Price. |
| Interest Rate | <p>The Initial Interest Rate will be set on the Rate Set Date at the greater of the:</p> <ul style="list-style-type: none"> • Benchmark Rate on the Rate Set Date plus the Margin; and • Minimum Interest Rate announced on or before the Opening Date. <p>Unless the Bonds are redeemed earlier, the Interest Rate will be reset at five yearly intervals thereafter on each Rate Reset Date, to be equal to the sum of the applicable Benchmark Rate at that time, plus the Margin.</p> |
| Rate Reset Date | The First Call Date and each fifth anniversary of the First Call Date. |



For a more comprehensive description of the Bonds, see *Answers to important questions* from page 31.

| | |
|----------------------------------|---|
| Margin | The Margin will be announced by IAG on or before the Opening Date and will apply on each subsequent Rate Reset Date. |
| Minimum Interest Rate | The Minimum Interest Rate will be announced by IAG on or before the Opening Date. |
| Interest payments | Interest is scheduled to be paid quarterly in arrears in four equal payments on 15 March, 15 June, 15 September and 15 December of each year (each an Interest Payment Date), commencing on 15 March 2012. Early Bird Interest will be paid as outlined below. |
| Deferral of interest payments | <p>IAG may defer paying any interest if:</p> <ul style="list-style-type: none"> • APRA or another prudential regulatory body requests IAG, the Group or a regulated insurance subsidiary to restore or improve its margin of solvency or capital adequacy levels and no interest payments have been made on equally or lower ranking subordinated debt and no dividends have been paid to shareholders since the date of that Regulatory Intervention (as defined under <i>Arrears of interest – optional and compulsory payments</i> on page 49); or • No interest payments have been made on equally or lower ranking subordinated debt during the financial year in which such Interest Payment Date falls and no dividends have been paid to shareholders during the 12 months prior to that Interest Payment Date. <p>IAG must defer paying any interest if:</p> <ul style="list-style-type: none"> • prior to the occurrence of a Winding Up Default, IAG would not be Solvent immediately before and after the interest payment. <p>IAG must pay any Deferred Interest if Regulatory Intervention is no longer continuing or an interest or other payment is made in respect of junior or parity securities, in addition to other events specified in the Conditions.</p> |
| Interest payments are cumulative | Any Deferred Interest Payments are cumulative and will accrue interest at the Interest Rate until paid. |
| Early Bird Interest | IAG will pay interest to each Bondholder on subscriptions at the Interest Rate from (and including) the date on which subscription money is banked to the Offer trust account to (but excluding) the Issue Date (after deducting any applicable withholding taxes). Early Bird Interest will be paid not later than five Business Days after the Issue Date. |
| Regulatory Event or Tax Event | <p>IAG may redeem all of the Bonds at any time following the occurrence of a Tax Event or, at any time prior to the First Call Date, following a Regulatory Event, subject to obtaining the prior written approval of APRA and any other regulatory and legal requirements being met. Please refer to <i>Answers to important questions</i> 5.6.</p> <p>If the Bonds are redeemed as a result of a Tax Event, they are to be redeemed at their Principal Amount, plus any accrued interest unpaid.</p> <p>If the Bonds are redeemed as a result of a Regulatory Event, they are to be redeemed at the greater of the:</p> <ul style="list-style-type: none"> • Principal Amount, plus any accrued interest unpaid; and • Market Price. |
| Minimum investment | <p>The minimum investment amount per application is NZ\$5,000, with multiples of NZ\$1,000 thereafter.</p> <p>IAG may accept all or part of any application, or refuse any application, in its absolute discretion, with the exception of a valid application received in satisfaction of a Firm Allocation.</p> |



SUMMARY OF THE TERMS OF THE OFFER (CONTINUED)

| | |
|------------------------|---|
| Listing and quotation | An application has been made to NZX Limited (which is a registered exchange) for permission to list the Bonds on NZDX (being a registered market under the Securities Markets Act 1988 operated by NZX) and all relevant requirements of NZX that can be complied with on or before the date of distribution of this Investment Statement have been complied with. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this Investment Statement. |
| NZDX code | IAG010 |
| Who may apply | All of the Bonds may be reserved for subscription by clients of the Joint Lead Managers or Co-Managers, institutional investors and other approved financial intermediaries. The aggregate number of Bonds so reserved will be determined by the Joint Lead Arrangers and IAG on or before the Opening Date. The Joint Lead Arrangers and IAG will determine the arrangements for Bonds not subject to Firm Allocations (if any) following the bookbuild and will announce those arrangements on or prior to the Opening Date. |
| Applications | Investors who have not received a broker firm application wishing to subscribe for the Bonds should use the Application Form at the back of this Investment Statement. Applications may also be submitted to the Joint Lead Managers, the Co-Managers, any NZX primary market participant, the Organising Participant or any other channel approved by NZX in time to enable the application to be forwarded to the Registrar and be received by the time noted. Applications for the Bonds and accompanying payment must be received by the Registrar by 12:00 noon on the Closing Date (being 12 December 2011). Full application instructions are set out under <i>How much do I pay?</i> on page 35. |
| Joint Lead Arrangers | ANZ National Bank Limited; and UBS New Zealand Limited. |
| Joint Lead Managers | ANZ National Bank Limited; Bank of New Zealand; Craigs Investment Partners Limited; Forsyth Barr Limited; and UBS New Zealand Limited. |
| Co-Managers | Macquarie Securities (NZ) Limited; and Westpac Banking Corporation, New Zealand Branch. |
| Organising Participant | UBS New Zealand Limited. |
| Trustee | The New Zealand Guardian Trust Company Limited. |
| Registrar | Computershare Investor Services Limited. |
| Taxation | The New Zealand taxation consequences of holding the Bonds is summarised under <i>Taxation</i> from page 53. This section also describes some aspects of Australian tax law that may be relevant, including any Additional Amount that may become payable by way of gross up if any withholding or deduction is required under Australian tax law. |
| Governing law | New Zealand (other than in respect of the subordination of the Bonds, which is governed by the laws of New South Wales, Australia). |



IMPORTANT DATES

Minimum Interest Rate and Margin announcement date

14 November 2011

Opening Date

16 November 2011

Closing Date*

12 December 2011

Interest Rate announcement date (Rate Set Date)

13 December 2011

Issue Date

15 December 2011

Expected date of initial quotation on NZDX

16 December 2011

Early Bird Interest paid

Not later than five Business Days after the Issue Date

First coupon Interest Payment Date

15 March 2012

Interest Payment Dates

15 June, 15 September, 15 December and 15 March of each year

First Call Date and first Rate Reset Date

15 December 2016. At this date, IAG may redeem the Bonds in accordance with the Conditions (subject to regulatory approval)

Maturity Date

15 December 2036

The above dates are indicative only and subject to change by IAG at any time prior to the actual Issue Date. IAG has the right to extend or otherwise vary the Opening Date and the Closing Date. This may have a consequential effect on other dates listed above. Any change to the Closing Date will be advised by NZX announcement.

* Applications must be received by the Registrar no later than 12:00 noon on the Closing Date.



CORPORATE PROFILE

About IAG

IAG is an ASX-listed company incorporated in Australia. IAG is the ultimate parent company of a group of insurance companies primarily operating in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom. IAG is authorised as a non-operating holding company of general insurance companies under the Insurance Act 1973 of Australia and is subject to prudential supervision by APRA.

The financial position of IAG as at 30 June 2011 on a stand-alone and non-consolidated basis is outlined in *Summary financial information* on page 24.

The Bonds are not guaranteed by any of IAG's subsidiary companies. This Investment Statement describes the activities and the financial performance and position of the Group because:

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

About the Group

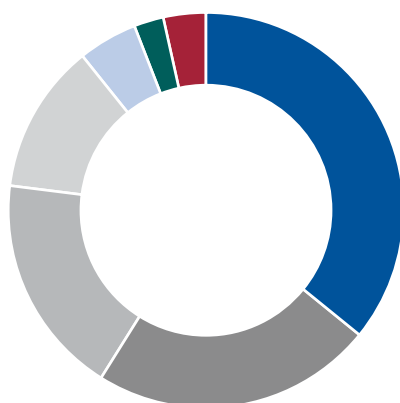
The Group is a leading general insurance group in Australia and New Zealand, with a growing presence in Asia and a specialist underwriter in the United Kingdom. Approximately 90% of the Group's Gross

Written Premium (**GWP**) is derived from its businesses in Australia and New Zealand.

The Group offers personal and commercial insurance products under some of the most trusted brands in its markets, including NRMA Insurance, SGIO, SGIC, CGU, and Swann Insurance in Australia; and State and NZI in New Zealand. The Group currently employs approximately 13,000 people worldwide and is headquartered in Sydney, Australia.

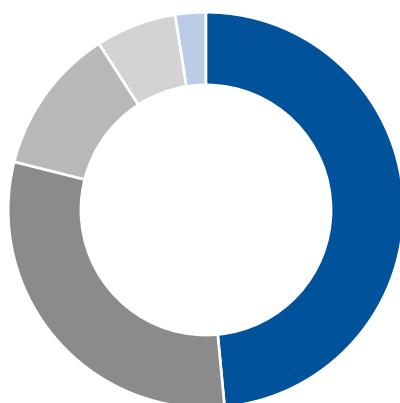
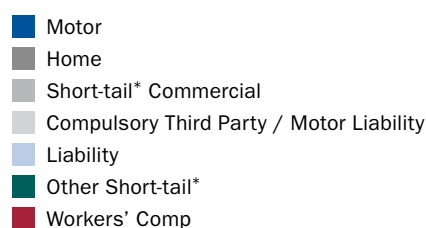
For the financial year ended 30 June 2011, the Group's reported GWP was A\$8,050 million and net profit after tax was A\$250 million (FY10 A\$91 million).

More information in relation to the Group's performance can be found in this Investment Statement under the *Summary financial information* on page 23 and at www.iag.com.au/results.



Group's portfolio of products

% of Gross Written Premium for the year ended 30 June 2011



Group's geographical presence

% of Gross Written Premium for the year ended 30 June 2011



*Short-tail vs Long-tail insurance

Short-tail insurance refers to the classes of insurance with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs whilst long-tail insurance refers to the classes of insurance with an average period generally more than 12 months between the time when premiums are earned and final settlement of claims occurs. Approximately 80% of the Group's GWP is short-tail in nature.



**IAG IS A HOLDING
COMPANY WITH A
PORTFOLIO OF END-
TO-END BUSINESSES
ALIGNED AROUND
CUSTOMERS,
BRANDS AND
MARKETS.**

THE GROUP'S MAJOR BRANDS



¹ RACV is via a distribution relationship and underwriting joint venture with RACV Limited.

² RACV has a 30% interest in The Buzz.

³ 98% voting rights in Safety Insurance, based in Thailand.

⁴ 49% ownership of the general insurance arm of AmBank Group, AmG Insurance Berhad, trading under the AmAssurance brand.

⁵ 26% ownership of SBI General Insurance Company, a joint venture with the State Bank of India.

BUSINESS SEGMENTS

The Group in Australia

The Group operates leading general insurance brands in Australia including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance.

Australia Direct Insurance

Australia Direct is IAG's largest business, concentrating on direct personal lines insurance products, including compulsory third party, motor and home and contents insurance, as well as business insurance packages targeted at sole operators and smaller businesses. Australia Direct also offers lifestyle and leisure insurance products including vintage and classic car, boat, caravan and travel.

Australia Direct underwrites approximately 8 million policies around Australia, with its call centres answering about 4 million calls per year and finalising over 500,000 claims annually.

The business operates with single pricing and claims platforms, but with State-based brands selling personal insurance products through a network of 29 company owned branches and over 200 agencies, call centres, the internet and representatives.

Insurance products in New South Wales, the Australian Capital Territory, Queensland and Tasmania are sold primarily under the NRMA Insurance brand, which has sold insurance since 1925. The SGIO brand operates in Western Australia and SGIC in South Australia.

In Victoria, the business distributes direct home, motor and other insurance products via a distribution relationship and underwriting joint venture with RACV.

A nationwide online brand, The Buzz, was launched in May 2009, initially focusing on car insurance and extended to home products in June 2010.

Australia Intermediated Insurance

CGU is one of Australia's largest intermediary-based insurers, with a history dating back to the 1851. IAG acquired CGU in 2003.

CGU sells intermediated commercial and personal insurance products through a nationwide network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions.

CGU has a branch network of over 75 offices and a network of over 1,000 brokers and authorised representatives plus over 100 financial institutions and affinity group partners.

CGU is also a leading provider of workers' compensation services in Australia, operating in most States and Territories. In New South Wales and Victoria, it collects premiums and manages claims on behalf of those State governments. In Western Australia, Tasmania, the Australian Capital Territory and the Northern Territory, CGU underwrites policies and manages claims.

Swann Insurance sells a range of niche insurance products including consumer credit and motor vehicle related products. IAG acquired Swann Insurance in 2003.

Swann Insurance provides protection to over 750,000 Australians through its specialist personal insurance products covering motorcycles, cars, bicycles, loan repayments, bill obligations and life insurance.

The Group in New Zealand

The Group is the largest general insurer in New Zealand, with more than 2,000 staff servicing a network of nationwide call centres, sales centres and branches.

The Group's New Zealand business is the country's leading provider of general insurance, directly to consumers under the State brand and indirectly through insurance brokers and agents, under the NZI brand.

New Zealand Direct Insurance (State)

State has been providing New Zealanders with an extensive range of personal and business insurance services for over 105 years, offering its customers car, home, contents, business asset and liability cover and travel insurance policies. IAG acquired State in 2001. State also assists



STRATEGY

its customers to secure life insurance and funeral cover plans.

As a leading insurer, State is committed to providing customers with easy and convenient ways to buy insurance and make claims. State introduced New Zealand's first online service for the purchase of motor vehicle policies in 2003, and more recently introduced further innovations with online claims services.

Today, in excess of half a million New Zealand households and businesses have access to State's range of insurance products and receive claims support from more than 830 employees, an easy to navigate website, a number of high tech call centres and 28 local branches.

As an insurer with a long and proud history, State plays a key role in helping people rebuild their homes, repair their vehicles, replace lost items, restore their businesses and occasionally help out whole communities in times of crises.

New Zealand Intermediated Insurance (NZI)

NZI is the leading commercial insurer in New Zealand and one of New Zealand's longest established brands, with a heritage dating back to 1859. IAG acquired NZI in 2003.

NZI offers an extensive selection of flexible, comprehensive insurance services for businesses throughout New Zealand, including cover for commercial premises, vehicles, equipment, marine services, professional risks, travel and rural. NZI also provides a range of home, contents and car policies for personal customers who choose the services of a broker for their insurance needs.

NZI leads the market with a range of developments in online integration with broker businesses and placement facilities.

Today NZI enjoys close working partnerships with the majority of New Zealand's independent network of more than 2,200 general insurance brokers and provides customised service solutions

for many leading local and international broker houses.

IAG New Zealand (Business Partners)

As a leading insurer, IAG in New Zealand also underwrites vehicle, home and contents insurance for two of New Zealand's leading financial institutions, ASB Bank and Bank of New Zealand. In addition, IAG operates a number of specialist insurance brands which provide travel insurance, classic, performance car and motorbike cover and warranty products.

The Group in the United Kingdom

In the UK, the Group has a specialist motor underwriting operation, Equity Red Star (**ERS**). ERS commenced operations in 1946, and is the largest motor syndicate at Lloyd's, providing insurance to business and personal lines customers. IAG acquired ERS in 2007. The UK business also includes Equity Direct Broking affinity business and specialist commercial broker Barnett & Barnett.

The Group in Asia

The Group has interests in four Asian insurance businesses:

- controlling economic interests in NZI and Safety Insurance in Thailand;
- 49% share of AmG Insurance Berhad, a general insurance joint venture in Malaysia with AMMB Holdings Berhad; and
- 26% interest in SBI General Insurance Company, a general insurance joint venture in India which commenced trading in 2010.

In China, the Group has also announced the acquisition of a 20% interest in Bohai Property Insurance Pty Ltd, a Tianjin-based general insurer. Regulatory approval for the transaction is expected in early 2012.

The Group's strategy is to manage a portfolio of high performing, customer-focused diverse operations that provide general insurance in a manner that delivers superior experiences for stakeholders and creates value for shareholders.

Strategic priorities

Building on the solid platform created since 2008, in June 2011 the Group reset its strategic priorities to:

- accelerate growth in Australia and New Zealand by stepping up initiatives to drive profitable organic growth, while remaining open to acquisition opportunities;
- restore profitability in the UK; and
- boost its Asian footprint so the Asia division delivers 10% of the Group's GWP by 2016 on a proportional basis.

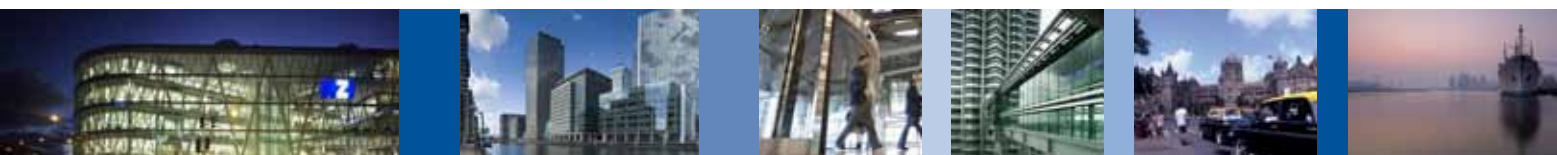
Asia remains a priority region for the Group and is considered important to medium to long-term growth. Accordingly, the Group is now focused on delivering on the significant potential attached to its existing Asian operations and accelerating its expansion plans beyond the countries in which it has an existing presence.

Financial targets

The Group's priorities are supported by two long-term financial targets:

- **Return on equity (ROE) greater than 1.5 times the weighted average cost of capital** The Group targets a cash ROE of at least 1.5 times weighted average cost of capital. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation of intangibles and unusual items. Based on the Group's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%.
- **Top quartile total shareholder return** The Group aims to achieve top quartile total shareholder returns benchmarked against the S&P/ASX Top 50 Industrials.

The aim is to achieve these targets through the cycle, given the nature and volatility of insurance.



REINSURANCE

Reinsurance is insurance for insurers, and under this arrangement one party (the reinsurer) agrees to indemnify another (the cedant i.e. the insurer) against all or part of the liability they have taken on under an insurance policy or policies.

Reinsurance is used by the Group to limit exposure to large single claims and accumulation of claims that arise from the same event or an accumulation of similar events. The primary risks the Group manages using reinsurance are exposures to natural catastrophes such as cyclone or earthquake. Insurance risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of risks underwritten. The key elements of the Group's reinsurance management framework are described in the Group Reinsurance Management Strategy which is reviewed and approved annually by the Board and submitted to APRA.

The Group must purchase catastrophe reinsurance to cover at least the minimum required by APRA (which is currently to cover a 1-in-250 year event). The Group usually retains the risk for the first level of claims for any particular event. The limit of catastrophe cover purchased by the Group as at 26 October 2011 was A\$4.1 billion with an event retention of approximately A\$200 million. A substantial proportion of this limit is available to cover losses that may occur in New Zealand. If the extent of insurance loss exceeds the upper limit of cover, the amount in excess of the limit, together with the event retention, would need to be met by the Group.

A detailed description of the current reinsurance arrangements is provided in the *Summary financial information* section on page 28.

A description of the risks relating to the Group's reinsurance arrangements can be found in *Answers to important questions* 6.2.2.

CREDIT RATINGS

Standard & Poor's currently considers the Group to have a 'very strong' insurer financial strength and issuer rating of 'AA-' for its key wholly-owned insurance companies. IAG, as the holding company for the Group and the issuer of the Bonds, currently has a credit rating of 'A+' from Standard & Poor's (re-affirmed in August 2011). As subordinated obligations of IAG, the Bonds have been assigned a credit rating of 'A-' from Standard & Poor's.

Ratings definitions used by Standard & Poor's are as follows:

- an **issue credit rating** is a forward-looking opinion about the credit worthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program;
- an **issuer credit rating** is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It

does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation; and

- a **rating outlook** assesses the potential direction of a long-term counterparty credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. A rating outlook is not necessarily a precursor of a rating change or future creditwatch action.

A credit rating is a statement of opinion, not a statement of fact or recommendation to buy, hold or sell securities (including the Bonds). Ratings are subject to revision or withdrawal at any time.

| | |
|------------|---|
| AAA | An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. |
| AA | An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. |
| A | An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. |
| BBB | An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. |
| BBB- | An obligation rated 'BBB-' is considered the lowest investment grade rating by market participants. |
| BB | An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. |
| '+' or '-' | Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. |

Source: www.standardandpoors.com

REGULATION

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

There are currently a number of regulatory reviews underway which could impact the Group:

Australia

APRA is currently reviewing its capital standards for both life insurers and general insurers. The aims of the review include improving the risk sensitivity of the capital standards and achieving better alignment across APRA regulated industries. A revision to the insurance prudential framework has the potential to affect the form and amount of capital the Group is required to hold. For more information on the potential impact of these revisions on the Bonds please refer to *Answers to important questions* 6.1.11.

New Zealand

The Insurance (Prudential Supervision) Act 2010 was passed into law on 7 September 2010. This Act establishes a licensing regime for persons carrying on an insurance business in New Zealand, with the supervisory functions performed by the Reserve Bank of New Zealand. The new regulatory regime is similar to that already in place in Australia and is expected to have limited impact on the Group's New Zealand business as existing governance frameworks are consistent with the new regulatory requirements.

United Kingdom

Solvency II, the updated set of European Union regulatory requirements for insurers, is scheduled to come into effect at the start of 2013. It has been reported that the UK implementation will be between 2013 and 2014. It is likely that Solvency II will increase the solvency capital requirements and the management costs for many insurers, putting more pressure on their returns on capital and premium rates.



IMPORTANT NOTE CONCERNING REFERENCES TO IAG AND THE GROUP

The Bonds are issued by IAG, a company incorporated in Australia which is the ultimate parent company of a group of insurance companies operating primarily in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom.

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

The Bonds are not guaranteed by any of IAG's subsidiary companies. This Investment Statement describes the activities and the financial performance and position of the Group because:

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

SUMMARY FINANCIAL INFORMATION

Summary financial information for Insurance Australia Group Limited and its subsidiaries

The following table contains information extracted from the Group's audited annual financial results for the previous five financial years. The annual financial results have been prepared in accordance with the Corporations Act and Australian Accounting Standards (AASBs), adopted by the Australian Accounting Standards Board in the relevant year. International Financial Reporting Standards (IFRS) forms the basis of the AASBs. The presentation currency of the summary financial information is Australian dollars and the amounts have been rounded to the nearest million dollars, unless otherwise stated.

| | Year end 30 Jun 2011 A\$m | Year end 30 Jun 2010 A\$m | Year end 30 Jun 2009 A\$m | Year end 30 Jun 2008 A\$m | Year end 30 Jun 2007 A\$m |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| FINANCIAL PERFORMANCE | | | | | |
| Gross written premium | 8,050 | 7,782 | 7,842 | 7,793 | 7,381 |
| Gross earned premium | 7,858 | 7,621 | 7,718 | 7,765 | 7,207 |
| Reinsurance expense | (620) | (556) | (485) | (470) | (464) |
| Net premium revenue | 7,238 | 7,065 | 7,233 | 7,295 | 6,743 |
| Net claims expense | (5,089) | (5,072) | (5,370) | (5,155) | (4,474) |
| Underwriting expenses | (1,978) | (2,054) | (2,128) | (2,124) | (1,862) |
| Underwriting profit/(loss) | 171 | (61) | (265) | 16 | 407 |
| Net investment income on assets backing insurance liabilities | 489 | 554 | 780 | 432 | 360 |
| Insurance profit | 660 | 493 | 515 | 448 | 767 |
| Net investment income from equity holders' funds | 213 | 96 | (39) | 24 | 301 |
| Other income | 256 | 259 | 411 | 484 | 468 |
| Finance costs | (86) | (88) | (87) | (101) | (119) |
| Other operating expenses | (429) | (358) | (488) | (935) | (509) |
| Profit/(loss) before income tax | 614 | 402 | 312 | (136) | 908 |
| Income tax expense | (276) | (212) | (65) | (90) | (279) |
| Net profit/(loss) | 338 | 190 | 247 | (226) | 629 |
| Other comprehensive income/(expense), net of tax | (43) | (4) | (61) | n/a ¹ | n/a ¹ |
| Total comprehensive income/(expense), net of tax | 295 | 186 | 186 | n/a ¹ | n/a ¹ |
| Net profit for the year attributable to: | | | | | |
| Non-controlling interests | 88 | 99 | 66 | 35 | 77 |
| Insurance Australia Group Limited | 250 | 91 | 181 | (261) | 552 |
| Total comprehensive income/(expense) for the year attributable to: | | | | | |
| Non-controlling interests | 88 | 99 | 63 | n/a ¹ | n/a ¹ |
| Insurance Australia Group Limited | 207 | 87 | 123 | n/a ¹ | n/a ¹ |
| BALANCE SHEET | | | | | |
| Total assets | 22,923 | 20,446 | 19,315 | 19,380 | 21,637 |
| Total liabilities | 18,343 | 15,790 | 14,479 | 15,029 | 16,805 |
| Total equity | 4,580 | 4,656 | 4,836 | 4,351 | 4,832 |
| OTHER FINANCIAL INFORMATION | | | | | |
| Net operating cash flow | 620 | 1,115 | 414 | 5 | 401 |
| Net investing cash flow | 38 | (849) | (352) | 1,089 | (124) |
| Net financing cash flow | (337) | (479) | (20) | (970) | 173 |
| Share issued under institutional placement, net of costs | - | - | 444 | - | 737 |
| Dividend paid to shareholders | 281 | 301 | 245 | 537 | 492 |
| Basic Earnings Per Share (cents) | 12.08 | 4.39 | 9.32 | (14.29) | 32.79 |
| MCR multiple | 1.58 | 1.92 | 1.79 | 1.62 | 1.67 |

¹ Other comprehensive income is disclosed under AASB101 *Presentation of Financial Statements* since June 2010.

The below key ratio/metrics are not audited, however are derived from the audited financial statements.

| | Year end 30 Jun 2011 | Year end 30 Jun 2010 | Year end 30 Jun 2009 | Year end 30 Jun 2008 | Year end 30 Jun 2007 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| OTHER KEY RATIO/METRICS | | | | | |
| Loss ratio | 70.3% | 71.8% | 74.2% | 70.7% | 66.4% |
| Expense ratio | 27.3% | 29.1% | 29.4% | 29.1% | 27.6% |
| Combined ratio | 97.6% | 100.9% | 103.6% | 99.8% | 94.0% |
| Insurance margin | 9.1% | 7.0% | 7.1% | 6.1% | 11.4% |
| Cash ROE (average equity) (% pa) | 11.1% | 8.3% | 4.9% | 2.7% | 14.9% |

Summary financial information for Insurance Australia Group Limited (unconsolidated/standalone)

The following table contains information extracted from IAG's audited annual financial results for the previous five financial years, other than as indicated in the footnotes. The annual financial results have been prepared in accordance with the Corporations Act and Australian Accounting Standards (AASBs), adopted by the Australian Accounting Standards Board in the relevant year. International Financial Reporting Standards (IFRS) forms the basis of the AASBs. The presentation currency of the summary financial information is Australian dollars and the amounts have been rounded to the nearest million dollars, unless otherwise stated.

| | Year end 30 Jun 2011 A\$m | Year end 30 Jun 2010 A\$m | Year end 30 Jun 2009 A\$m | Year end 30 Jun 2008 A\$m | Year end 30 Jun 2007 A\$m |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| FINANCIAL PERFORMANCE | | | | | |
| Profit/(loss) for the year | 377 | 221 | 302 | 764 | 353 |
| Total comprehensive income and (expense) for the year net of tax | 377 | 221 | 302 | n/a ¹ | n/a ¹ |
| BALANCE SHEET | | | | | |
| Receivables from related bodies corporate | 214 ² | 81 | 51 | 120 | 155 |
| Trade and other receivables | - ² | 1 | 96 | 69 | - |
| Investments | - ² | - | 1 | 1 | - |
| Loans to related bodies corporate | 230 ² | 912 | 884 | 671 | 667 |
| Current tax assets | - ² | - | 49 | - | - |
| Deferred tax assets | 1 ² | 71 | 30 | 7 | 6 |
| Investment in controlled entities | 7,213 ² | 6,035 | 5,785 | 5,785 | 5,578 |
| Total Assets | 7,658 | 7,100 | 6,896 | 6,653 | 6,406 |
| Accounts payable | 6 ² | 7 | 8 | 16 | 20 |
| Payables to related bodies corporate | 20 ² | 62 | 91 | 48 | 109 |
| Current tax liabilities | 168 ² | - | - | 42 | 28 |
| Borrowings from related bodies corporate | 701 ² | 327 | - | 173 | 211 |
| Interest bearing liabilities | 562 ² | 600 | 640 | 860 | 1,130 |
| Total Liabilities | 1,457 | 996 | 739 | 1,139 | 1,498 |
| Net Assets | 6,201 | 6,104 | 6,157 | 5,514 | 4,908 |
| Share Capital | 5,353 | 5,353 | 5,326 | 4,740 | 4,361 |

¹. Other comprehensive income is disclosed under AASB101 Presentation of Financial Statements since June 2010.

². In the year-ended 30 June 2011, these items were not disclosed in IAG's audited annual financial statements in accordance with Australian accounting standards and have been derived from trial balances used in the preparation of those financial statements.

Overview

The Group announced an insurance profit of A\$660 million for the 12 months to 30 June 2011 (FY10: A\$493 million), representing an insurance margin of 9.1% (FY10: 7.0%). Net profit after tax increased to A\$250 million (FY10: A\$91 million). Gross written premium was A\$8,050 million (FY10: A\$7,782 million), representing underlying growth of 4.8% after adjusting for foreign exchange movements.

The result reflects the sound underlying performance in the Group's Australian and New Zealand businesses, indicating strong underwriting discipline and expense management.

The insurance profit includes the following influences on reported performance:

- net natural peril claim costs of A\$610 million (FY10: A\$463 million), which exceeded allowances of A\$435 million by A\$175 million and reduced the reported margin by 2.4%. Notable peril events during the year included the heavy rain and storms in Brisbane and Toowoomba (January 2011), Tropical Cyclone Yasi (February 2011), and three successive major earthquakes in Christchurch, New Zealand (September 2010, February 2011 and June 2011);
- incremental reinsurance expenses stemming from that severe natural peril activity of A\$83 million, comprising reinstatement and accelerated amortisation costs;
- higher than expected reserve releases of A\$328 million (FY10: A\$228 million), reflecting favourable experience in long-tail classes; and
- a slower than anticipated recovery in the UK, following higher than expected bodily injury claim inflation. Remediation actions contributed to a significantly reduced loss in the second half.

Investment income on shareholders' funds improved to A\$213 million (FY10: A\$96 million), largely due to the absence of a A\$96 million charge from reversal of the exchange right valuation in respect of the reset exchangeable securities.

Gross Written Premium (or GWP)

GWP measures the total premiums relating to insurance policies underwritten by the Group during a specified time period.

GWP for the Group was A\$8,050 million, up 3.4% from A\$7,782 million in FY10. Reported growth was affected by the strength of the Australian dollar on translation of premium generated offshore, notably in the UK and Asia.

After allowing for the impact of foreign exchange movements, underlying GWP growth in FY11 was 4.8%, with growth of 6.3% recorded in the second half of FY11.

Comparing FY11 GWP with FY10:

- the Australia Direct Insurance business grew by 6.5% to A\$3,891 million, evenly driven by rate increases and volume growth, with particularly strong growth recorded in home and compulsory third party insurance;
- the Australia Intermediated Insurance business grew by 8.8% to A\$2,463 million, derived from a mixture of rate increases, new business and acquisitions. This is the first increase in reported GWP in several years, following significant focus on the quality of its insurance portfolio;
- the New Zealand business reported flat GWP of A\$956 million; however, in local currency terms an increase of 3.4% was recorded. This was largely driven by rate increases in the NZI intermediated segment, which took effect primarily in the second half of the financial year;
- the UK business reported a reduction in GWP of over 23%, to A\$546 million, although in local currency terms the decline was a more modest 14%, as remedial actions led to lower volumes which were partially offset by rate increases. GWP in the second half was similar to that for the first half; and
- in Asia, the Group participated in a regional GWP pool of in excess of A\$420 million. The Group's share of that pool in FY11 was nearly A\$300 million or 3.7% of the Group's GWP on a proportional basis.



Insurance margin

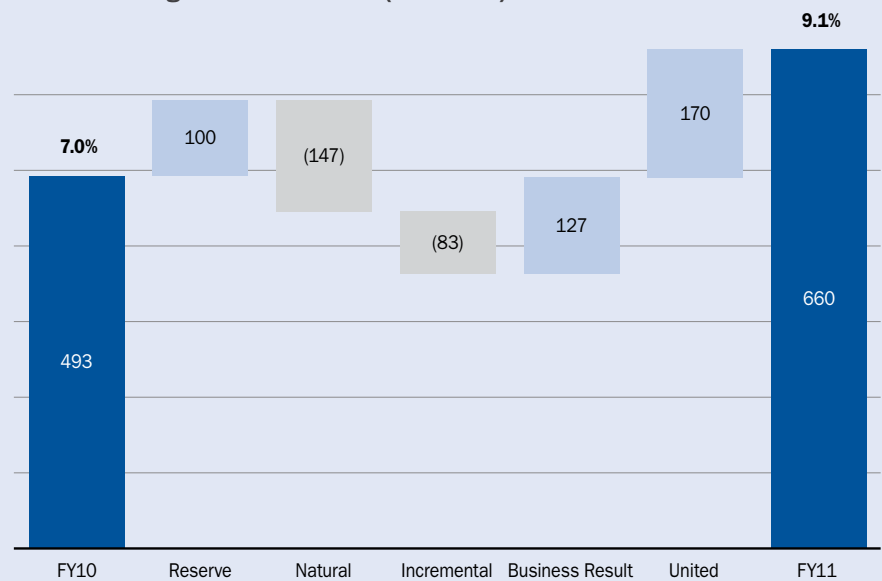
Insurance margin is measured as the ratio of insurance profit to net earned premium (GWP less unearned premium and reinsurance expense).

The Group's insurance margin for FY11 was 9.1% (FY10: 7.0%), although the result contained two contrasting halves. A first half margin of 12.7% declined to 5.4% in the natural peril-impacted second half, with higher than expected reserve releases a partially offsetting factor.

The year-on-year insurance profit comparison contains the following notable elements:

- increasing net natural peril claim costs of A\$147 million, along with associated incremental reinsurance costs (post-event reinstatement and accelerated amortisation costs) of A\$83 million;
- higher than expected net prior period reserve releases of A\$328 million (FY10: A\$228 million), reflecting favourable claims experience relative to initial assumptions in long-tail classes; and
- a considerably reduced loss from the UK, where bodily injury claim inflation has remained an issue, but the Group's remedial actions have begun to contribute to an improved performance.

Insurance margin – FY11 vs FY10 (A\$ million)



Notes:

1. Incremental reinsurance costs in FY11 include reinstatement costs and accelerated amortisation.
2. United Kingdom insurance margin movement excludes yield and natural peril movements, as well as reserve strengthening in FY11 (A\$20m) and FY10 (A\$25m, excluding one-off charge in 2H10).

Return on equity (ROE)

In FY11, IAG reported a cash ROE of 11.1%, compared to 8.3% in FY10.

Capital

The Group currently has a target coverage of its regulatory Minimum Capital Requirement (**MCR**) of 1.45 to 1.50 times as a long-term benchmark. As at 30 June 2011, the Group's regulatory capital stood at a multiple of 1.58 times MCR, which is above the Group's benchmark.

Capital mix

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangible assets, which is consistent with regulatory and rating agency models. IAG currently targets a longer term capital mix of:

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

At 30 June 2011, the Group's capital mix was near the mid-point of the targeted range, with debt and hybrid securities representing 33.7% of total tangible capitalisation.

The following table provides an overview of the Group's capital mix over the last two financial years:

| | 1H10 A\$m | 2H10 A\$m | 1H11 A\$m | 2H11 A\$m |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Shareholder equity | 5,040 | 4,656 | 4,658 | 4,580 |
| Intangibles and goodwill | (2,195) | (2,083) | (1,853) | (1,869) |
| Tangible shareholder equity | 2,845 | 2,573 | 2,805 | 2,711 |
| Interest bearing liabilities | 1,586 | 1,450 | 1,380 | 1,377 |
| Total tangible capitalisation | 4,431 | 4,023 | 4,185 | 4,088 |
| Debt to total tangible capitalisation | 35.8% | 36.0% | 33.0% | 33.7% |

Investments

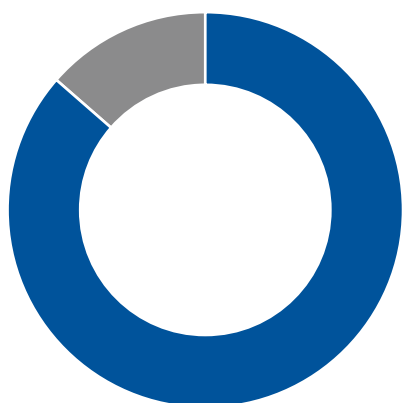
The Group's investments totalled A\$11.9 billion as at 30 June 2011, excluding investments held in joint ventures and associates. This compares to A\$11.8 billion at 31 December 2010 and A\$11.7 billion at 30 June 2010.

As at 30 June 2011, the Group's overall investment allocation remained conservatively positioned with around 87% of total investments in fixed interest and cash. Technical reserves remained almost entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was nearly 59%.

It is the Group's current strategy to move towards a target allocation of 50% to growth assets in shareholders' funds, and in doing so to utilise alternative assets with growth asset return characteristics resulting in lower overall portfolio volatility than listed equities.

Investment assets

| | 1H10 A\$bn | 2H10 A\$bn | 1H11 A\$bn | 2H11 A\$bn |
|--|---------------|---------------|---------------|---------------|
| Technical reserves | 7.9 | 8.4 | 8.1 | 8.3 |
| Shareholders' funds | 3.6 | 3.3 | 3.7 | 3.6 |
| Total investment assets | 11.5 | 11.7 | 11.8 | 11.9 |
| Other funds managed on behalf of third parties | 0.5 | 0.5 | 0.5 | 0.5 |



Group Asset Allocation
30 June 2011

- Fixed Interest and Cash
- Growth

Sensitivity analysis

As at 30 June 2011, the sensitivity of the Group's net profit before tax to investment market movements was as set out in the table below. These values are included on a gross basis and are not adjusted for potential offsets available from the revaluation of outstanding claims liabilities.

Sensitivity of Net Profit Before Tax – as at 30 June 2011

| | Change in assumption | |
|-------------------------------------|----------------------|-------------|
| | +1% A\$m | -1% A\$m |
| Equity market values: | | |
| Australian equities | 7 | (7) |
| International equities | 5 | (5) |
| Interest rates: | | |
| Assets backing technical provisions | (226) | 242 |
| Assets backing shareholders' funds | (32) | 34 |
| Total investment returns | (258) | 276 |

Note: Includes indirect sensitivities relating to alternative asset classes.

The fixed interest investment portfolio operates under strict credit criteria. As at June 2011, 94% of the portfolio was invested in credit rated 'AA' or better.

Reinsurance

IAG's reinsurance programme is an important part of the Group's overall approach to capital management. A general description of reinsurance and the risks associated with reinsurance is enclosed in the *Corporate profile and Answers to important questions* 6.2.2.

The Group's current philosophy is to limit its main catastrophe retention (i.e. the exposure the Group has to an event or series of events) to a maximum of 4% of Net Earned Premium. Its current retentions are below this level.

The Group determines its reinsurance requirements on a modified whole-of-portfolio basis (the portfolio being the sum of all correlated risk). The cover purchased reflects a 1-in-250 year return period.

The last 18 months have proved a challenging time for natural peril losses. Australia and New Zealand have experienced an unprecedented number of both severe and frequent losses to which insurers and, in turn, reinsurers have responded. Despite this, reinsurance capacity has been resilient and remains available. A key challenge over the next period will be the price of this capacity, with reinsurance rates expected to rise.

The Group renewed its catastrophe programme at 1 January 2011 when IAG placed its entire programme on a similar basis to that for 2010, incurring moderate rate increases in the region of 10%, after allowing for aggregate growth. With continued loss activity in 2011, further reinsurance rate increases are expected at the Group's next renewal on 1 January 2012.

In the face of severe natural peril activity across FY11, the Group's catastrophe reinsurance cover has provided considerable protection during the year and performed in line with expectations.

Operating on a calendar year basis, the Group's catastrophe reinsurance protection at renewal on 1 January 2011 comprised:

- the main catastrophe programme, operating on an excess of loss basis for all territories and providing cover up to A\$4.1 billion, with the Group retaining the first A\$250 million of each loss;
- a three-year arrangement to reduce the Maximum Event Retention (**MER**) of the Group below A\$250 million, to A\$150 million in Australia and A\$115 million for New Zealand, as well as specific covers reducing the UK to A\$53 million;

- second and third event covers, together with a number of other strategic purchases, which reduced the MER for a second event to A\$125 million for Australia, A\$96 million for New Zealand and A\$50 million for the UK, and for a third event to A\$50 million across the Group; and
- a property catastrophe aggregate cover of A\$150 million excess of A\$150 million, providing protection for accumulated losses arising from events larger than A\$15 million, across IAG's operations, capped at a maximum of A\$50 million per event.

The scale of natural peril events in the opening half of calendar 2011 has been such that much of the Group's lower layer protection has been utilised, while the Christchurch earthquake in February prompted the Group to purchase reinstatement cover in the main programme. As at 26 October 2011, the status of the Group's reinsurance cover for the period to 31 December 2011 can be summarised as:

- main programme protection for a further two events up to A\$4.1 billion, following purchased reinstatements; and
- an MER of approximately A\$200 million for any next event.

The counterparty credit profile for the current key reinsurances of the Group is:

- 83% of cover placed with 'A+' or better-rated entities for the property catastrophe programme; and
- 100% of cover placed with 'A+' or better-rated entities for the casualty programme.

Recent natural perils

The year ended 30 June 2011 was characterised by a large number of natural peril events.

While the first half of the financial year included events such as the first earthquake in Christchurch (September 2010) and a number of severe storms in both Australia and New Zealand, the Group had the benefit of significant reinsurance protection during the period, notably via the aggregate cover.

The opening months of 2011 saw a sequence of major peril events, most notably the severe storms in Queensland, Tropical Cyclone Yasi in northern Queensland and the second, more severe earthquake in Christchurch. The half concluded with a third earthquake in Christchurch. While materially reduced by reinsurance protection, the net claims cost from natural peril events in the second half significantly exceeded allowances for the period.

The Group has increased its natural peril allowances in recent years in the face of increased peril activity. Allowances for FY12 are A\$580 million, a 33% increase over allowances held at the beginning of FY11.



THE PURPOSE OF THIS SECTION IS TO PROVIDE INFORMATION THAT IS LIKELY TO ASSIST A PRUDENT BUT NON-EXPERT PERSON DECIDE WHETHER OR NOT TO SUBSCRIBE FOR THE BONDS.

APPLICANTS SHOULD NOTE THAT OTHER IMPORTANT INFORMATION ABOUT THE OFFER IS SET OUT IN THE PROSPECTUS AND THE BOND TRUST DEED.

ANSWERS TO IMPORTANT QUESTIONS

1. WHAT SORT OF INVESTMENT IS THIS?

1.1 Bonds

IAG is issuing unsecured subordinated Bonds that carry a fixed rate of interest paid quarterly.

The Bonds will mature on 15 December 2036 unless redeemed earlier in accordance with the Bond Trust Deed. IAG may redeem the Bonds in whole or in part on any Interest Payment Date from 15 December 2016 (being the First Call Date) – see *Answers to important questions* 8.2.

The Bonds will be issued under, and be subject to, the provisions of the Bond Trust Deed.

All of the Bonds may be reserved for subscription by clients of the Joint Lead Managers or Co-Managers, institutional investors and other approved financial intermediaries. The aggregate number of Bonds so reserved will be determined by the Joint Lead Arrangers and IAG on or before the Opening Date. The Joint Lead Arrangers and IAG will determine the arrangements for Bonds not subject to Firm Allocations (if any) following the bookbuild and will announce those arrangements on or prior to the Opening Date.

IAG currently has a credit rating of 'A+' from Standard & Poor's, with a stable outlook, re-affirmed in August 2011. As subordinated obligations of IAG, the Bonds have been assigned a credit rating of 'A-' by Standard & Poor's. A credit rating is not a recommendation to invest in Bonds and may be subject to revision, suspension or withdrawal at any time.

In accordance with Standard & Poor's rating methodology at the time of this issue, the Bonds are eligible to qualify as equity capital for credit rating purposes. However, the Bonds will cease to be eligible to receive any formal treatment as equity capital beyond 15 December 2016 in accordance with Standard & Poor's current rating methodology on account of having less than 20 years to maturity.

1.2 Interest

Interest is scheduled to be paid on the Bonds quarterly in arrears. Interest will be paid on 15 March, 15 June, 15 September and 15 December of each year until redemption, commencing on 15 March 2012. Interest may be deferred in certain situations. Any Deferred Interest is cumulative and will accrue interest at the Interest Rate until it is paid.

1.3 Ranking and subordination

IAG is a holding company which owns or holds interests in a group of insurance companies in Australia, New Zealand, Asia and the United Kingdom. The other members of the Group do not guarantee the Bonds, and, as such Bondholders will have no claim on any Group member other than IAG.

The Bonds are unsecured, subordinated debt obligations of IAG and at the time of issue rank:

- *ahead of:*
 - the claims of any holder of a preference share issued by IAG. For example, on exchange of the A\$550 million perpetual reset exchangeable securities (**RES**) issued by IAG Finance (New Zealand) Limited under a trust deed (**RES Trust Deed**) dated 15 December 2009 in accordance with their terms (**RES Terms**) or the claims of any holder of any RES against IAG under the RES Terms and the RES Trust Deed in respect of the RES if IAG fails to issue a preference share when required to do so in accordance with the RES Terms;
 - Ordinary Shares;
 - any claims on IAG in respect of the A\$350 million perpetual reset preference shares issued according to a prospectus dated 6 May 2002; and
 - all other shareholders and all other creditors whose claims against IAG rank, or are expressed to rank, after the claims of the Bondholders in connection with the Bonds;
- *equally:*
 - amongst themselves; and
 - with all other creditors whose claims against IAG rank or are expressed to rank equally with amounts owing by IAG in connection with the Bonds, for example including the claims of holders of the £250 million fixed/floating rate subordinated notes of IAG due 2026; and
- *behind* all obligations to Senior Creditors of obligations mandatorily preferred by law and all other creditors whose claims against IAG rank or are expressed to rank ahead of the Bondholders' claims for amounts owing by IAG in connection with the Bonds.

If a Winding Up has occurred:

- a Bondholder's entitlement in the Winding Up to the principal, interest and other amounts due in respect of the Bonds is subordinated and postponed

and subject in right of payment to payment in full of the claims of the Senior Creditors (which includes all unsecured and unsubordinated creditors of IAG – please refer to the *Glossary*); and

- a Bondholder may only prove in the Winding Up for such amounts as a debt which is subject to prior payment in full of the Senior Creditors, and until the Senior Creditors have been paid in full, the Bondholder must not claim in the Winding Up in competition with the Senior Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior Creditors would have been entitled to receive.

If no Winding Up has occurred:

- the obligations of IAG to make payments of principal and interest and all other amounts due in respect of the Bonds are conditional upon IAG being Solvent at the time of payment by IAG; and
- no payment of principal, interest or other amounts due under the Bonds may be made except to the extent that IAG may make such payment and still be Solvent immediately thereafter.

Any amount not paid as a result of this subordination accumulates, remains a debt owing to the Bondholder by IAG until it is paid and is payable on the first date on which the relevant deferral of interest condition would not apply (whether or not such date is otherwise a payment date).

There is no restriction on IAG issuing additional debt that ranks ahead of the Bonds.

At the date of this Investment Statement, unsubordinated debt for borrowed money of IAG was nil (other than borrowings from related bodies corporate).

1.4 NZDX listing

Application has been made to NZX Limited (which is a registered exchange) for permission to list the Bonds on NZDX (being a registered market under the Securities Markets Act 1988 operated by NZX) and all relevant requirements of NZX that can be complied with on or before the date of distribution of this Investment Statement have been duly complied with. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this Investment Statement.

IAG intends that quotation of the Bonds on NZDX will commence on 16 December 2011.

2. WHO IS INVOLVED IN PROVIDING IT FOR ME?

2.1 Issuer

Insurance Australia Group Limited is the issuer of the Bonds. IAG's address is:

Group General Counsel
and Company Secretary
Insurance Australia Group Limited
Level 26, 388 George Street
Sydney NSW 2000
Australia

The address of IAG may change from time to time without notice to you. See IAG's website (www.iag.com.au) for details.

2.2 Directors

- Brian Schwartz
- Michael Wilkins
- Yasmin Allen
- Peter Bush
- Phillip Colebatch
- Hugh Fletcher
- Anna Hynes
- Philip Twyman



BRIAN SCHWARTZ AM

FCA, FAICD
Chairman and Independent
Non-Executive Director

Sydney, Australia

Brian Schwartz was appointed a director of IAG in January 2005 and became chairman in August 2010. Brian is a member and former chairman of the IAG Nomination, Remuneration & Sustainability Committee and is also chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd. He is a member of the IAG Diversity Working Group.

Brian is a non-executive director of Brambles Limited, the deputy chairman of Westfield Group Limited, the deputy chairman of the board of Football Federation Australia Limited and the deputy chairman of Carindale Property Trust.

Brian was the chief executive of Investec Bank (Australia) Ltd from 2005 to 2009. Previously, he was with Ernst & Young Australia from 1979 to 2004 becoming its chief executive in 1998. He was a member of Ernst & Young's global board and managing partner of the Oceania region.

Brian was appointed a Member of the Order of Australia in 2004 for his services to business and the community. He was previously a member of the Federal Government's Australian Multicultural Advisory Council and in 2001 he was named leading CEO for the Advancement of Women by the Equal Opportunity for Women in the Workplace Agency.

Directorships of other listed companies held in past three years:

- Brambles Limited since 13 March 2009;
- Westfield Group, including Westfield Management Limited (which acts as the responsible entity of Carindale Property Trust) since 6 May 2009; and
- IAG Finance (New Zealand) Limited (a part of the Group) since 26 August 2010.



MICHAEL WILKINS

BCom, MBA, DLI, FCA
Managing Director and
Chief Executive Officer

Sydney, Australia

Michael Wilkins was appointed as managing director and chief executive officer in May 2008 after holding the position of chief operating officer and director of IAG since November 2007. He is chairman of the IAG Diversity Working Group.

Michael has more than 25 years experience in the insurance and financial services sector. He is a director of the Insurance Council of Australia and a member of the Australian Government's Financial Sector Advisory Council.

Michael was formerly the managing director of Promina Group Limited (from August 1999 to March 2007), managing director of Tyndall Australia Limited (from 1994 to 1999) and a director of the Investment and Financial Services Association.

He is currently a non-executive director of Maple-Brown Abbott Limited and a former non-executive director of Alinta Limited.

In 2004, Michael was voted as Outstanding Chartered Accountant in Business and in 2005 as ANZIIF Insurance Personality of the Year.

Directorships of other listed companies held in past three years:

- IAG Finance (New Zealand) Limited (a part of the Group) since 28 May 2008.



YASMIN ALLEN

BCom, FAICD

Independent Non-Executive Director

Sydney, Australia

Yasmin Allen was appointed as a director of IAG in November 2004. She is chairman of the IAG Nomination, Remuneration & Sustainability Committee and a member (and former chairman) of the IAG Audit, Risk Management & Compliance Committee.

Yasmin served six years on the board of Export Finance and Insurance Corporation.

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Cochlear Limited, chairman of Macquarie Specialised Asset Management, a national director of the Australia Institute of Company Directors and a member of the Salvation Army advisory board. Previous non-executive director roles include Export Finance and Insurance Corporation and Film Australia.

Yasmin was formerly a vice president at Deutsche Bank AG, a director at ANZ Investment Bank in Australia and an associate director at James Capel UK Ltd (HSBC Group).

Directorships of other listed companies held in past three years:

- Cochlear Limited since 2 August 2010.



PETER BUSH

BA, FAMI

Independent Non-Executive Director

Sydney, Australia

Peter Bush was appointed as a director of IAG in December 2010. He is a member of the IAG Audit, Risk Management & Compliance Committee.

Peter has extensive experience in marketing, brands and consumer behaviour gained through a career spanning more than 30 years in the fast moving consumer goods and retail industries. He was McDonald's Australia Limited's managing director & CEO and president for Pacific, Middle East and Africa (2005-2010) and chief operating officer (2002-2005). Previously he held senior roles with Arnott's Biscuits Limited, Pioneer International Limited (Ampol/Caltex), Samuel Taylor (Reckitt & Coleman plc) and Johnson & Johnson Australia, and was chief executive officer of AGB McNair and Schwarzkopf Australia & New Zealand.

Peter is a non-executive director of Pacific Brands Limited, the chairman of Nine Entertainment Co. Holdings Pty Ltd, and previously served on the boards of McDonald's Australia Limited, Lion Nathan Limited, Miranda Wines Pty Limited (now McGuigan Wines) and Frucor Beverages Group Limited (now Danone).

Directorships of other listed companies held in past three years:

- Pacific Brands Limited since 3 August 2010.



PHILLIP COLEBATCH

BE (Hons), BSc, DBA, SM

Independent Non-Executive Director

Somerset, United Kingdom

Phillip Colebatch was appointed as a director of IAG in January 2007. He is a member of the IAG Nomination, Remuneration & Sustainability Committee.

Phillip has served on the group executive boards of Swiss Re and Credit Suisse Group.

Prior to joining Swiss Re as division head, capital management and advisory, he spent 17 years with the Credit Suisse Group where, in addition to his executive board position, he served as chief financial officer of Credit Suisse Group and then chief executive officer of Credit Suisse Asset Management. He has also served as head of European banking activities for Credit Suisse First Boston. Phillip began his career with Citicorp in New York and has held a number of senior investment banking roles at Citicorp in Asia and the UK.

Phillip is a non-executive director of Lend Lease Corporation Limited and Man Group plc. He is also a member of the board of trustees of the LGT Group Foundation and the Prince of Liechtenstein Foundation.

Directorships of other listed companies held in past three years:

- Lend Lease Corporation Limited since 1 December 2005; and
- Man Group plc since 1 September 2007.



HUGH FLETCHER

BSc/BCom, MCom (Hons), MBA
Independent Non-Executive Director
Auckland, New Zealand

Hugh Fletcher was appointed as a director of IAG in September 2007 and as a director of the IAG New Zealand board in July 2003. He is a member of the IAG Audit, Risk Management & Compliance Committee.

Hugh was formerly chairman (and independent director since December 1998) of New Zealand Insurance Limited and CGNU Australia. Hugh is also the deputy chairman of the Reserve Bank of New Zealand, a non-executive director of Fletcher Building Limited, Rubicon Limited and Vector Limited, and a trustee of The University of Auckland Foundation.

Hugh was formerly chief executive officer of Fletcher Challenge Limited – a New Zealand headquartered corporation with assets in the global building, energy, forestry and paper industries. Hugh retired from an executive position in December 1997 after 28 years as an executive, 11 of which he served as chief executive.

Directorships of other listed companies held in past three years:

- Fletcher Building Limited since 31 January 2001;
- Rubicon Limited since 23 March 2001;
- Vector Limited since 25 May 2007; and
- IAG Finance (New Zealand) Limited (a part of the Group) since 31 August 2008.



ANNA HYNES

BSc (Hons), MBA
Independent Non-Executive Director
Sydney, Australia

Anna Hynes was appointed as a director of IAG in September 2007. She is a member of the IAG Nomination, Remuneration & Sustainability Committee and was formerly a member of the IAG Audit, Risk Management & Compliance Committee. Anna was formerly a non-executive director of Promina Group Limited.

Anna has over 20 years experience in general management and marketing roles in financial services and consumer products companies. She has worked in the UK, Asia and the USA, as well as Australia and New Zealand.

Anna spent most of her executive career at American Express where she held a number of senior positions, most recently country head, New Zealand.

Anna was formerly a non-executive director of Country Road Limited.

Directorships of other listed companies held in past three years:

- None.



PHILIP TWYMAN

BSc, MBA, FAICD
Independent Non-Executive Director
Sydney, Australia

Philip Twyman was appointed as a director of IAG in July 2008. He is chairman of the IAG Audit, Risk Management & Compliance Committee.

He was formerly group executive director of Aviva plc, one of the world's largest insurance groups, based in London. He has also been chairman of Morley Fund Management and chief financial officer of General Accident plc, Aviva plc and AMP Group.

Overall, Philip has had over 20 years of both board and executive level general insurance experience.

Philip is on the advisory board of Swiss Re (Australia). He was formerly an independent non-executive director of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd between April 2007 and July 2008.

Philip is also on the board of Perpetual Limited, Medibank Private Limited and Tokio Marine Management (Australasia) Pty Ltd.

Directorships of other listed companies held in past three years:

- Perpetual Limited since November 2004.

Other than Michael Wilkins, as managing director and chief executive officer of IAG, no director of IAG is also an employee of IAG or any member of the Group.

The directors of IAG may change from time to time without notice to you. See IAG's website (www.iag.com.au/about/board) for details.

2.3 Description of IAG's activities

IAG is an ASX-listed company with a portfolio of investments in general insurance businesses with leading and established brands across its home markets of Australia and New Zealand, a growing presence in Asia, and other specialist underwriting operations.

IAG's businesses have a deep heritage dating back 150 years. Since then the Group has expanded, now having interests in businesses in Australia, New Zealand, the United Kingdom and Asia.

The Group currently underwrites over A\$8 billion of insurance premiums and employs around 13,000 people.

The Group's strategy is to manage a portfolio of high performing, customer-focused diverse operations that provide general insurance in a manner that delivers superior experiences for stakeholders and creates value for shareholders.

2.4 Trustee

The trustee of the Bonds is The New Zealand Guardian Trust Company Limited. The Trustee's address is Level 7, 48 Shortland Street, PO Box 1934, Auckland 1142. The address of the Trustee may change from time to time without notice to you (see the Companies Office website at www.business.govt.nz/companies for details).

2.5 Registrar

The registrar of the Bonds is Computershare Investor Services Limited. The Registrar's address is Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622, Private Bag 92119, Victoria Street West, Auckland 1142. The address of the Registrar may change from time to time without notice to you (see the Companies Office website at www.business.govt.nz/companies for details).

3. HOW MUCH DO I PAY?

3.1 Minimum investment

The Issue Price is NZ\$1.00 per Bond. The minimum amount you can invest is NZ\$5,000, and in multiples of NZ\$1,000 thereafter, and payment of the total application moneys in full must accompany the Application Form. There is no limit on the maximum investment you may make.

3.2 Applications and payments

Applications must be made on the Application Form contained in this Investment Statement, and in accordance with the instructions contained in this Investment Statement. This Investment Statement does not constitute an offer of the Bonds in any jurisdiction other than New Zealand, unless authorised to do so in that jurisdiction.

You must pay for the Bonds applied for in New Zealand dollars by personal or bank cheque, by direct debit as set out in the Application Form, or through the NZClear system. Cheques must be drawn on a New Zealand branch of a registered bank and submitted with the completed Application Form. Cheques must be made payable to "IAG Bond Offer", crossed "Not Transferable" and must not be post dated. Funds must be available as cleared funds in your account.

Please read the Application Form and the *Application instructions* on page 63 carefully and sign the Application Form.

For direct debit payments, funds must be available in your account for value the day that the Registrar activates the direct debit. You must also ensure that your account is able to be direct debited and you must be authorised on that account as a signatory for a direct debit transaction. If unsure, you must check with your bank or other financial institution.

Dishonoured cheques or failed direct debits may result in your application being rejected.

Institutions that normally settle via the NZClear System can do so by making arrangements prior to the Closing Date and settlement with the Registrar. Such application can be settled up to and including the Issue Date.

The Trustee is not responsible for monitoring the application by IAG of the money paid by applicants for the Bonds.

3.3 Where to send your Application Form and payment

3.3.1 Broker firm offer

Applicants accepting a Firm Allocation from a NZX Firm or other approved financial intermediary must return a completed Application Form (together with means of payment) to the office of that financial intermediary as advised by that intermediary in time to enable forwarding to the Registrar before 12:00 noon on the Closing Date.



3.3.2 General offer (if any)

Completed applications for any public pool (together with means of payment) may be lodged with the Joint Lead Managers, the Co-Managers, any NZX Firm or any other approved financial intermediary. Applications should be lodged as soon as possible in time for them to be forwarded to the Registrar before 12:00 noon on the Closing Date (12 December 2011 or another date announced by IAG).

Applications can also be sent directly to the address of the Registrar, as set out in the Application Form.

Applications for the Bonds and accompanying payment must (if payment is not made through the NZClear System) be received by the Registrar by 12:00 noon on the Closing Date.

3.4 There is no assurance that any Bonds will be available in a public pool

IAG reserves the right to refuse all or any part of any application without giving a reason, including where an applicant has not provided account details for payments by direct debit. Application money will be held by the Registrar in trust for applicants until the Issue Date.

Any application money received in respect of an application which is not accepted by IAG, whether because of late receipt or otherwise, will be returned (without interest) to the applicant as soon as reasonably practicable after IAG decides not to accept the application and, in any event, within five Business Days of the Closing Date.

If IAG accepts an application in part, the balance of the application money (without interest) will be refunded as soon as reasonably practicable and, in any event, within five Business Days of the Closing Date.

Where an applicant's payment for the Bonds is dishonoured, IAG may cancel any of the Bonds issued to that applicant, and may pursue the defaulting applicant for damages suffered by IAG.

An application cannot be withdrawn or revoked by the applicant once submitted.

The Securities Act 1978 prohibits IAG from accepting applications or making allotments in the five working day period after the date of registration of the Prospectus (**Consideration Period**). The Consideration Period may be extended by the Financial Markets Authority by

up to a further five working days or may be shortened by the Financial Markets Authority. The purpose of the Consideration Period is to enable the Prospectus to be examined prior to the raising of funds. Applications received during the Consideration Period will not be processed until after the expiry of the Consideration Period.

3.5 No cooling off

There is no cooling off period during which an investor can cancel their investment in the Bonds.

4. WHAT ARE THE CHARGES?

Other than their application payment, investors are not required to pay any charges to IAG in relation to the Offer.

A fee or commission may be charged if the Bonds are purchased or sold on the secondary market. IAG takes no responsibility for the pricing actions of secondary market participants and any fee or commission is to be directly negotiated between the Bondholder and the relevant secondary market participant.

Issue expenses in relation to the Bonds, including brokerage, legal, accounting, registry, printing, distribution and promotion expenses, and Organising Participant, Joint Lead Manager and other fees incurred in connection with the Offer, are payable by IAG. IAG is also required to pay any ongoing Trustee fees and expenses, including legal expenses.

IAG will pay brokerage on total applications of 1.0% to the Joint Lead Arrangers. Such brokerage will be distributed as appropriate to NZX Firms and approved financial intermediaries for applications carrying that firm's stamp. A Firm Allocation fee of 0.5% in respect of Bonds allocated pursuant to a Firm Allocation will also be paid to the Joint Lead Arrangers and distributed as appropriate to NZX Firms or approved financial intermediaries that have provided valid applications pursuant to a Firm Allocation.

5. WHAT RETURNS WILL I GET?

5.1 Overview

The information set out in this section should be read in conjunction with the information set out in *What are my risks?* from page 38. Certain events could reduce or eliminate the returns intended to be derived from holding the Bonds.

5.2 Key factors that determine returns

The key factors that determine the returns on a Bondholder's investment are:

- the Interest Rate;
- whether the Bonds are transferred by the Bondholder, on the secondary market or otherwise, prior to the Maturity Date or an earlier IAG redemption date;
- whether IAG redeems the Bonds prior to the Maturity Date;
- any applicable taxes (refer to *Taxation* from page 53);
- any deferral of interest in accordance with the Conditions; and
- the other risk factors described in *What are my risks?* from page 38.

As a result of these factors, it is not possible to quantify as at the date of this Investment Statement the exact amount of returns Bondholders will receive, and therefore no such amount can be promised by IAG.

5.3 Interest Rate

IAG will pay interest on each Bond at the Interest Rate. The Interest Rate until the First Call Date will be set on the Rate Set Date at the greater of:

- the Benchmark Rate on the Rate Set Date plus the Margin; and
- the Minimum Interest Rate.

The Interest Rate will be reset at five yearly intervals thereafter on each Rate Reset Date, to be equal to the sum of the Benchmark Rate at that time, plus the Margin.

5.4 Interest payments

5.4.1 Interest Payment Dates

Interest is payable quarterly in arrears in four equal payments on 15 March, 15 June, 15 September and 15 December of each year until redemption, with the first Interest Payment Date on 15 March 2012.

Each interest payment will be made to the Bondholder on the Register as at the Record Date, which is 10 days prior to the relevant Interest Payment Date. If an Interest Payment Date falls on a day that is not a Business Day, the relevant payment will be made on the next day which is a Business Day, without adjustment, interest or further payment as a result thereof.

5.4.2 Early Bird Interest

IAG will pay interest to each Bondholder on subscriptions at the Initial Interest Rate

from (and including) the date on which subscription moneys are banked to the Offer trust account to (but excluding) the Issue Date (after deducting any applicable withholding tax or Approved Issuer Levy).

If IAG refuses an application or accepts an application in part, no Early Bird Interest will be paid on the application money returned to the applicant. Early Bird Interest will be paid not later than five Business Days after the Issue Date.

5.4.3 Deferral of interest payments

IAG may defer paying any interest if:

- APRA or another prudential regulatory body requests IAG, the Group or a regulated insurance subsidiary to restore or improve its margin of solvency or capital adequacy levels and no interest payments have been made on equally or lower ranking subordinated debt or no dividends have been paid to shareholders since the date of that Regulatory Intervention; or
- no interest payments have been made on equally or lower ranking subordinated debt during the financial year in which such Interest Payment Date falls and no dividends have been paid to shareholders during the 12 months prior to that Interest Payment Date.

IAG must defer paying any interest if prior to the occurrence of a Winding Up Default, IAG would not be Solvent immediately before and after the payment by IAG.

Any Deferred Interest is cumulative and will accrue interest at the Interest Rate until it is paid.

IAG must pay any Deferred Interest at the earlier of no Regulatory Intervention continuing or a payment in respect of an interest in a junior or parity security occurring, in addition to certain other events.

5.5 Repayment at maturity

If not previously redeemed, the Principal Amount will be repaid by IAG to the Bondholders on the Maturity Date. IAG is not obliged to repay the Bonds prior to the Maturity Date unless redeemed earlier in accordance with the Bond Trust Deed. Bondholders have no right to require redemption of any of their Bonds except in certain circumstances following a Winding Up.

5.6 Redemption by Issuer

IAG may redeem all, but not some, of the Bonds prior to the Maturity Date on the

First Call Date and any Interest Payment Date thereafter and on the occurrence of a Tax Event or Regulatory Event, subject to obtaining the prior written approval of APRA.

If the Bonds are redeemed on the First Call Date or any subsequent Rate Reset Date, Bondholders will receive their Principal Amount, plus any accrued interest unpaid.

If the Bonds are redeemed on any other Interest Payment Date following the First Call Date, Bondholders will receive the greater of the:

- Principal Amount, plus any accrued interest unpaid; and
- Market Price.

The Bonds may also be redeemed as at any time on the occurrence of a Tax Event or may be redeemed prior to the First Call Date on the occurrence of a Regulatory Event.

If the Bonds are redeemed as a result of a Tax Event, Bondholders will receive their Principal Amount, plus any accrued interest unpaid.

If the Bonds are redeemed as a result of a Regulatory Event prior to the First Call Date, Bondholders will receive the greater of the:

- Principal Amount, plus any accrued interest unpaid; and
- Market Price.

A Tax Event will occur if IAG would be required to pay any additional amounts as a result of deductions for certain Australian taxes (**Additional Amounts**) or if the interest payable in respect of the Bonds is not or may not be allowed as a deduction to IAG for Australian income tax purposes as a result of a change of law or regulations, or a determination to that effect is made by IAG or the Australian Taxation Office.

A Regulatory Event will occur if a change of applicable laws or regulations has the effect that, or a determination is made by APRA to the effect that, the Bonds do not fully qualify as Tier 2 Capital (or its equivalent concept) of the Group (on a consolidated basis) under the standards or guidelines published by APRA.

For more information on redemption of the Bonds, refer to *Summary of terms and conditions of the Bonds* on page 47.



5.7 Taxation of returns

Your returns will be affected by taxes. Please refer to Taxation on pages from page 53.

5.8 Transferring the Bonds

If a Bondholder transfers any Bonds on market, the price obtained for them may differ from the amount paid to purchase them. This is because changes in market interest rates, amongst other things, can affect the market value of the Bonds.

Bonds may only be transferred in multiples of NZ\$1,000 in Principal Amount and no transfer may be made if it results in the transferor or the transferee holding Bonds, the Principal Amount of which is less than NZ\$5,000 in aggregate (unless the amount is zero). You should contact an NZX Firm or your financial adviser if you wish to sell or transfer your Bonds.

IAG will not compensate Bondholders for any loss incurred if Bondholders choose to transfer their Bonds.

Applicants should not attempt to transfer their Bonds until they know whether, and how many, Bonds have been issued to them. Neither IAG nor its employees or any other person accepts any liability or responsibility if any applicant attempts to otherwise deal with any Bonds before receiving a statement recording the number of Bonds (if any) issued to them.

5.9 Person legally liable to pay returns

The person legally liable to pay interest on the Bonds and the Principal Amount of the Bonds is IAG as the issuer of the Bonds. No other person promises or guarantees the return of the Principal Amount or interest or any other returns in respect of the Bonds.

6. WHAT ARE MY RISKS?

This section describes some of the potential risks associated with an investment in the Bonds.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. There is no assurance that the importance of different risks will not change or other risks emerge.

Before applying for the Bonds, you should consider whether the Bonds are a suitable investment for you. There are risks associated with an investment in the Bonds, many of which are outside

the control of IAG and its directors.

These risks include those in this section and other matters referred to in this Investment Statement.

6.1 Risks associated with investing in the Bonds

Set out below are examples of the risks associated with an investment in the Bonds.

The principal risks for Bondholders are that they may:

- be unable to recover all or any part of the Principal Amount of the Bonds; or
- not receive all, or any, interest payment on the Bonds (including as a result of a deferral of interest payments), and therefore may not receive the returns described in this Investment Statement.

These circumstances could arise if IAG becomes insolvent for any reason, or is placed in receivership, administration, liquidation or any other similar process. As the Bonds are subordinated obligations of IAG, in a liquidation of IAG the claims of Bondholders in respect of the Bonds would rank behind the claims of Senior Creditors, as described more fully under *Ranking and subordination* on page 47.

Bondholders will not be liable to pay money to any person solely as a result of the insolvency of IAG.

6.1.1 Market price and liquidity

Although IAG intends to list the Bonds on NZDX, there is no guarantee that a liquid market will develop for the Bonds. The market price of the Bonds is likely to fluctuate and, if Bondholders wish to sell or otherwise transfer the Bonds before they are redeemed, the price at which they are able to be sold may be less than the price paid for them. Bondholders who wish to sell the Bonds may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists on NZDX for the Bonds.

The market price of the Bonds may fluctuate due to various factors, including investor perceptions, Australian, New Zealand and worldwide economic conditions, movements in interest rates, movements in foreign exchange rates, movements in the market price of ordinary shares or senior or subordinated debt issued by IAG, and other factors that may affect the financial performance, position or creditworthiness of IAG.

There is no guarantee that the Bonds will remain continuously quoted on NZDX. However, a delisting of the Bonds initiated by IAG would require Bondholder consent.

6.1.2 Fixed interest rate

The Interest Rate on the Bonds will be fixed for a five year period until the first Rate Reset Date. Thereafter, the Interest Rate will be fixed for further five year periods on the basis of the five year swap rate prevailing on the relevant Rate Reset Date, plus the Margin, until the Bonds are redeemed. There is a risk that if market interest rates increase during a reset period, the Interest Rate will become less attractive compared with rates of return available on other comparable securities in the market until the next Rate Reset Date.

Historical movement in five year swap rate

The following graph demonstrates the historical variance in the New Zealand five year swap rate.



6.1.3 Deferral of interest payments

Interest on the Bonds is not permitted to be paid if prior to the occurrence of a Winding Up Default, IAG would not be Solvent immediately before and after the payment. In addition, IAG has the option to defer interest payments in certain circumstances (refer to *Deferral of interest payments* on page 37 and the *Summary of terms and conditions of the Bonds* on page 48). If Interest is not paid in such circumstances, it will accrue until paid.

6.1.4 Bondholders' rights are subordinated in a Winding Up of IAG

In the event of a liquidation of IAG, the claims of Bondholders against IAG in respect of the Bonds will be subordinated in right of payment to claims of all Senior Creditors, all other creditors whose claims

rank or are expressed to rank ahead of the Bondholders' claims for amounts owing by IAG in respect of Bonds and all obligations mandatorily preferred by law.

Bondholders will be entitled to claim the applicable redemption amount for each outstanding Bond and any interest due and payable but unpaid at the commencement of the Winding Up. The claim for this amount ranks ahead of IAG's shares and obligations which by their terms or at law rank behind the Bonds, and equally with other bonds and any other obligations of IAG which by their terms rank equally with the Bonds, but behind all Senior Creditors, all obligations which by their terms rank or are expressed to rank ahead of the Bonds and all obligations mandatorily preferred by law.

If there is a shortfall of funds on a Winding Up to pay amounts owing on the Bonds, there is a risk that Bondholders will not receive the full payment of amounts to which they would otherwise be entitled.

6.1.5 Structural subordination

IAG is a holding company which owns or holds interests in a group of insurance companies in Australia, New Zealand, Asia and the United Kingdom. In the event a subsidiary was wound up, the claims of IAG would be limited to the net assets (if any) of that subsidiary after all liabilities, including to policyholders, have been discharged or provided for. The Bonds are not guaranteed by any of IAG's subsidiary companies. As such, Bondholders will have no claim on any Group member other than IAG.

In addition, IAG is reliant on the continued transfer of dividends or other funding from its subsidiaries to service its debt obligations, including the Bonds. The ability of IAG's subsidiaries to pay dividends or to otherwise make funds available to IAG may in certain circumstances be subject to regulatory, contractual or legal restrictions.

6.1.6 Early redemption

In certain circumstances, IAG has the right to redeem (subject to prior written approval of APRA), the Bonds held by Bondholders, including:

- all or some of the Bonds, on the First Call Date (being 15 December 2016) or any subsequent Interest Payment Date; or
- all of the Bonds, on the occurrence of a Tax Event (e.g. IAG is required to make gross-up payments or interest on

the Bonds cease to be tax deductible) or a Regulatory Event (e.g. the Bonds do not fully qualify as Tier 2 Capital of the Group).

The timing or occurrence of any such redemption may not accord with the preference of Bondholders and may also be disadvantageous in light of market conditions or individual circumstances.

If you acquired the Bonds in the secondary market (including on NZDX), it is possible that the amount you receive on redemption could be lower than the price paid for the Bonds.

6.1.7 Bondholders have no right to require redemption

Bondholders have no right to compel IAG to redeem the Bonds prior to maturity except in certain circumstances following a Winding Up Default. In particular, IAG is not obliged to redeem the Bonds on the First Call Date or any other Interest Payment Date.

Prior to the Maturity Date or an early redemption, the Bonds can only be realised by a sale on market or a private sale by a Bondholder. There is a risk that the sale price on market or under private sale will be less than the price paid for the Bonds. Brokerage may be payable if the Bonds are sold through an NZX Firm.

6.1.8 Future issuance

The Conditions do not restrict IAG or any other member of the Group from issuing additional debt securities that rank equally with or ahead of the Bonds.

6.1.9 Acquisitions, disposals and other transactions affecting IAG's capital structure

The Conditions do not restrict IAG or any other member of the Group from entering into any future transaction, including the acquisition and disposal of assets, entering into any borrowing, guarantee or indemnity or issuing further equity, hybrid or debt securities. Any such transactions may impact over time, either positively or negatively, on a Bondholder's position in the event of a Winding Up of IAG and on IAG's ability to pay interest on, and repay the Principal Amount of the Bonds. Bondholder approval is not required for IAG or any other member of the Group to enter into these types of transactions.

An investment in the Bonds carries no right to participate in any future issuance of securities (whether equity, hybrid, debt or otherwise) by IAG or any other member

of the Group. No prediction can be made as to the effect, if any, such future issues of securities by IAG or any other member of the Group may have on the market price or liquidity of the Bonds.

6.1.10 Credit ratings

There is a risk that credit ratings of IAG or the Bonds could change adversely in the future as a result of changes in IAG's or the Group's operating performance or capital structure or other factors affecting the perceived creditworthiness of IAG. Any downgrade of credit ratings could affect the market price of the Bonds.

6.1.11 Regulatory classification and prudential supervision

APRA has provided confirmation that the Bonds will, once issued, qualify for Tier 2 Capital treatment for the Group under prudential standards at the date of this Investment Statement. However, if APRA subsequently determines that the Bonds do not qualify fully for Tier 2 Capital treatment, IAG may decide that a Regulatory Event has occurred. This would allow, at any time prior to the First Call Date, redemption of all (but not some only) of the Bonds on issue at the option of IAG (subject to prior written approval from APRA) for the greater of the Principal Amount, plus any accrued interest unpaid, and the Market Price.

The Basel Committee for Banking Supervision has proposed to reform global banking and capital standards through the release of a regime known as Basel III. There is uncertainty around the timing and content of the Basel III reforms as they will apply to Australian insurers. APRA has indicated that it intends to modify its existing prudential standards to closer align with the Basel III proposals. The uncertainty regarding APRA's implementation of the Basel III proposals increases the risk of a regulatory change which could result in a Regulatory Event.

It is possible that the implementation of the Basel III proposals by APRA may negatively impact the level and nature of regulatory capital held by IAG and the Group, particularly the capital efficiency of its subordinated debt (including the Bonds).

The Bonds will form part of the regulatory capital base of the Group. Therefore, APRA's approval is required to redeem the Bonds prior to the Maturity Date. There can be no assurance that APRA will give its approval for redemption of the Bonds if

requested by IAG on the First Call Date or any subsequent Interest Payment Date.

6.2 Risks associated with IAG, the Group and the general insurance industry

Set out below are risks associated with IAG, the Group and the general insurance industry broadly that could impact on the value of the Bonds.

6.2.1 Catastrophes

General insurers are subject to the risk of large-scale claims arising out of catastrophes, which may have a significant impact on their earnings and financial condition. Catastrophes may include cyclones, earthquakes, tsunamis, wind, hail, floods, fire, volcanic eruptions and explosions, which are inherently unpredictable with regard to incidence and severity.

6.2.2 Reinsurance

The Group enters into a significant number of reinsurance contracts to limit its risk exposure to any one claim, class of business or occurrence of specific events and/or series of events. There can be no assurance that the Group's current reinsurance coverage is adequate, that it matches the underlying risks assumed, that reinsurance will be available at adequate rates or levels in the future or that increases in reinsurance costs will be recovered through premium rates. Recent catastrophes both in Australia and New Zealand as well as globally are expected to lead to increases in reinsurance rates, and changes in terms and availability.

The limit of catastrophe cover purchased by the Group as at 26 October 2011 was A\$4.1 billion with an event retention of approximately A\$200 million. If the extent of insurance loss exceeds the upper limit of cover, the amount in excess of the limit, together with the event retention, would need to be met by the Group.

The use of reinsurance introduces credit risk. The Group is exposed to risk if its reinsurers default on their obligation to pay claims. In addition, the Group may take a considerable period to collect on reinsurance receivables, and reinsurers may dispute its claims, even if valid. Despite reinsurance, the Group is primarily liable to policyholders, and so a failure by a reinsurer to make payment for any reason could adversely affect the Group's financial performance and position.

A detailed description of the Group's reinsurance arrangements can be found

in the *Corporate profile* on page 20 and in the *Summary financial information* on page 28.

6.2.3 Competition

The Group's position as a leading general insurer in Australia and New Zealand is an important factor in it being able to achieve strong and scalable insurance margins. Further industry consolidation could result in competitors improving their scale, increasing pressure on the Group's ability to maintain its insurance margins.

There is significant competition within the general insurance industry in Australia, New Zealand, the United Kingdom and Asia. Furthermore, new entrants to the industry may emerge in one or more of those markets, increasing the competitive pressure on the Group. This pressure could adversely affect the Group's underwriting results, market share and financial performance and position.

6.2.4 Market position

The Group's business is concentrated in Australia, New Zealand and the United Kingdom, which respectively accounted for 79%, 12% and 7% of reported GWP for the year ended 30 June 2011. This means the Group's performance is largely dependent on the insurance sector performance in these countries. As outlined under *Corporate profile* on page 19, the Group aspires to grow in Australia, New Zealand and Asia. The results of such a strategy are inherently uncertain and carry risks that the predicted profitability will not materialise.

6.2.5 Global market and economic environment

The financial performance of the Group is significantly affected by changes in investment markets and economic conditions both globally and in Australia, New Zealand, the United Kingdom and Asia, being the primary places in which the Group conducts business. These changes may influence the performance of those businesses or the value of the Group's investment portfolio. Such changes may also influence the operating margins of the Group and its businesses and the demand for the Group's financial products and services.

6.2.6 Investment performance

Investment performance can significantly affect the Group's financial performance and position. The Group's investment portfolios are exposed in various degrees to financial markets and volatility in

financial markets could lead to poor investment performance.

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

- credit risks from counterparty or issuer default;
- market risks that the value of an investment portfolio will decrease, including as a result of fluctuations in share prices, interest rates, exchange rates or commodity prices;
- liquidity risk, including that assets cannot be sold without a significant impairment in value; and
- hedging risk.

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

The sensitivity of the Group's net profit before tax to investment market volatility is illustrated in the *Sensitivity analysis* table on page 28.

6.2.7 Uncertainty of future liabilities

The Group maintains liabilities for future policy benefits and unpaid claims in its general insurance business. The calculation of policy liabilities depends on estimates of expected future revenue and expenses. These estimates are based on actuarial and statistical projections made on the basis of the facts and circumstances known at a given time, estimates of likely future trends and assumptions about future investment returns, expenses and inflation rates. Although the Group maintains assets in excess of policy liabilities based on best estimate assumptions, actual results and conditions may be different from those assumed, due to deterioration in persistency or claims, natural disasters or worsening general economic conditions.

As a result of the inherent uncertainties in assessing policy liabilities, there can be no certainty that the ultimate costs will not materially exceed those supported by the amounts of the Group's estimated liabilities. Any differences may result in a material adverse impact on the financial performance and position and level of capital of the Group.



6.2.8 Adverse foreign exchange rate movements

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

6.2.9 Changes in government policy, regulation or legislation

The general insurance industry is subject to extensive legislation, regulation and supervision by federal and state regulatory organisations, including the Australian Prudential Regulation Authority and the Reserve Bank of New Zealand. Insurance-specific regulation and supervision are primarily directed to the benefit of policyholders and not to holders of debt instruments issued by the Group, including the Bonds. A number of government and agency enquiries arising from recent natural perils and weather related events are currently underway in Australia and New Zealand. Whilst the Group has made submissions to such enquiries, the outcomes and specific consequences of the outcomes on the Group are currently unknown. Any future legislation and regulatory change may affect the general insurance and financial services industry and may adversely affect the Group's financial performance and position.

6.2.10 Mergers and acquisitions

The Group regularly examines a range of corporate opportunities, including mergers and acquisitions. Any of these opportunities which are pursued could, for a variety of reasons, have a material impact on the financial performance and position of the Group.

Any acquisitions may require assimilation of new operations and new personnel and may cause dilution of the Group's management resources. Changes in

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

As a potential target in any future merger or acquisition activity, the issues identified above may also be relevant to the Group. The Group's failure to adequately manage the risks associated with any mergers or acquisitions could have a material adverse effect on its financial performance or position.

6.2.11 Change of control

The Bonds are issued by IAG, which, as an ASX-listed company, may be affected by merger and acquisition activity, including the possibility of being taken over by, or merged with, another company or group of companies. There is no right in the Conditions for the Bonds to be redeemed on, or any other consequences of, any such change of control. Investors will not be compensated for any reduction in the market value of the Bonds that may result from a change of control of IAG.

6.2.12 Litigation and regulatory proceedings

IAG and the Group, like all companies in the insurance or finance sectors, are exposed to the risk of litigation and/or regulatory proceedings brought by or on behalf of policyholders, reinsurers, government agencies or other potential claimants. While there are no material legal proceedings that are current or known to be threatened against the Group, there can be no assurance that significant litigation will not arise in the future and that the outcome of legal proceedings from time to time will not have a material adverse effect on the Group's business, financial performance or position.

In addition, the Group, in the ordinary course of business, is regularly involved in legal proceedings relating to policies underwritten by entities within the Group or arising from its operations generally.

6.2.13 Operational factors

Whilst the Group has management and operational risk practices, its profitability will continue to be subject to a variety of strategic and business

decisions (including acquisitions/divestments) and operational risks such as: fraud and other dishonest activities; management practices; workplace safety; project and change management; compliance; business continuity and crisis management; information and systems integrity; and outsourcing.

7. CAN THE INVESTMENT BE ALTERED?

7.1 Terms of this Offer

IAG, in conjunction with the Joint Lead Managers, may change the dates applicable to the Offer and the Bonds referred to in this Investment Statement prior to the Issue Date. If IAG changes the Closing Date for the Offer, the Issue Date, Maturity Date and Interest Payment Dates will be altered accordingly and the Rate Set Date will be the Business Day prior to the Issue Date as altered.

The terms of the Offer, the terms and conditions on which investors may apply for the Bonds and the Conditions themselves may be altered by an amendment to the Bond Trust Deed in the manner described below.

7.2 Bond trust documents

The Conditions and the Bond Trust Deed may be altered with the approval of Bondholders by an Extraordinary Resolution at a meeting of Bondholders (whether convened by IAG, the Trustee or Bondholders) and, in some circumstances, with the approval only of the Trustee and IAG as more particularly described below.

An Extraordinary Resolution is a resolution passed at a meeting of Bondholders duly convened and held in accordance with the rules and procedures for meetings of Bondholders set out in schedule 1 to the Bond Trust Deed at which at least 75% of the persons voting at the meeting voted in favour of the resolution or, if a poll is duly demanded, then at least 75% of the votes cast on such a poll based on the total Principal Amount of the Bonds held, voted in favour of the resolution.

In addition, anything that may be done by Bondholders by a resolution or Extraordinary Resolution passed at a meeting of Bondholders may be done by a resolution in writing signed by not less than 75% of the Bondholders having the right to vote on that resolution, holding in aggregate Bonds conferring the right to

cast not less than 75% of the votes which could be cast on that resolution.

An Extraordinary Resolution is binding on all Bondholders, whether or not they were present or represented at such meeting or returned any proxy voting form. Any Bonds held by IAG or any other member of the Group do not confer the right to vote while so held.

The Trustee and IAG may, without the consent of Bondholders, agree to alter the Conditions in the circumstances specified in the Bond Trust Deed.

These circumstances include:

- amendments of a minor, formal, administrative or technical nature;
- amendments that are to correct any manifest error;
- amendments to comply with the requirements (or a modification of the requirements) of any applicable law or any rules of any stock exchange in New Zealand or elsewhere;
- amendments to comply with the provisions of any present or future law or regulation or the requirements of any statutory authority;
- amendments that are necessary for the purpose of obtaining or maintaining the quotation of Bonds on any stock exchange in New Zealand or elsewhere; or
- amendments in respect of any of the provisions of the Bond Trust Deed relating to reporting to the Trustee, the Trustee's fees, expenses and indemnities or the exercise of the Trustee's powers.

The above circumstances are also subject to the general requirement that IAG and the Trustee must each be of the opinion that the amendment will not be materially prejudicial to the interests of Bondholders generally. Notice of any such amendment must be provided to the Bondholders by IAG within 30 days of the amendment being made.

In addition, the Trustee may temporarily vary the provisions of the Bond Trust Deed for such period and on such terms as:

- deemed appropriate provided that the Trustee is satisfied that the interests of the affected Bondholders generally will not be materially prejudiced; or
- agreed by the Trustee to reflect an exemption of the nature referred to

above as an amendment that can be made without Bondholder approval.

The Trustee may also agree to amend or temporarily vary any obligation under the Bonds which is materially the same or analogous to any obligation imposed by law or listing rules where an exemption or waiver is obtained by IAG from the relevant law or listing rule.

Any amendment to the Bond Trust Deed will be binding on all Bondholders and will only be effective if it is in writing and signed by IAG and the Trustee.

8. HOW DO I CASH IN MY INVESTMENT?

8.1 Maturity Date

Unless earlier redeemed, the Principal Amount of the Bonds will be repaid by IAG on the Maturity Date, being 15 December 2036.

8.2 Redemption by IAG

Subject to obtaining the prior written approval of APRA and any other regulatory and legal requirements being met, IAG has the right to redeem all or part of the Bonds on a Call Date. The First Call Date is 15 December 2016, and each Interest Payment Date thereafter is also a Call Date.

If the Bonds are redeemed by IAG on a Rate Reset Date, they are to be repaid at their Principal Amount, plus any accrued interest unpaid.

If the Bonds are redeemed on any Interest Payment Date following the First Call Date, which is not a Rate Reset Date and is not a result of a Tax Event, they are to be redeemed at the greater of the:

- Principal Amount, plus any accrued interest unpaid; and
- Market Price.

8.3 Redemption by Bondholders

Bondholders have no right to require redemption of the Bonds, except through the Trustee in the case of a Winding Up Default. This means that Bondholders have no ability to cash in their investment prior to the Maturity Date, except following a Winding Up Default, where IAG chooses to redeem the Bonds prior to the Maturity Date (as described under *Redemption by Issuer* on page 37) or by selling their Bonds in any secondary market.



8.4 Transfer of the Bonds

Bondholders are entitled to transfer their interest in a Bond (or part thereof) at any time subject to the terms of the Bond Trust Deed and applicable securities laws and regulations.

A Bondholder may transfer any Bond held by it:

- by a written instrument of transfer in any commonly used form that complies with the standard form and procedures of the Registrar; or
- by means of the securities transfer system operated by NZX; or
- through the NZClear System,

or any other method of transfer of marketable securities that is not contrary to any law and that may be operated in accordance with any listing rules (if applicable) and that is approved by IAG.

Applicants should not attempt to transfer the Bonds until they know whether, or how many, Bonds have been issued to them. Neither IAG nor any other person accepts any liability or responsibility if any applicant for Bonds attempts to sell or otherwise deal with Bonds before receiving a statement recording the number of Bonds (if any) issued to them.

A Bondholder may transfer their interest in a Bond (or part thereof). However, no transfer of Bonds or any part of a Bondholder's interest in a Bond will be registered if the transfer would result in the transferor or the transferee holding or continuing to hold Bonds with an aggregate Principal Amount of less than NZ\$5,000 or multiples other than NZ\$1,000, unless the amount is zero.

It is expected that there will be a secondary market for the Bonds. However,

IAG, the Trustee, the Joint Lead Managers, the Co-Managers and the Joint Lead Arrangers give no assurances as to the existence or characteristics of such secondary market.

Brokerage at applicable rates is likely to be payable by a Bondholder on any transfer of the Bondholder's Bonds effected through a financial intermediary.

9. WHO DO I CONTACT WITH INQUIRIES ABOUT MY INVESTMENT?

Enquiries about the Bonds can be directed to:

The Registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2
159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

Telephone for investor enquiries:
+64 9 488 8777
Facsimile: +64 9 488 8787
Email: enquiry@computershare.co.nz
Website: www.computershare.co.nz/investorcentre

OR

The Issuer

Group General Counsel and Company Secretary
Insurance Australia Group Limited
388 George Street
Sydney NSW 2000
Australia
Telephone: +61 2 9292 8448
Facsimile: + 61 2 9292 8072
Email: companysecretary@iag.com.au

10. IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

Any complaints about the Bonds can be directed to:

The Issuer

Group General Counsel and Company Secretary
Insurance Australia Group Limited
388 George Street
Sydney NSW 2000
Australia
Telephone: +61 2 9292 8448
Facsimile: + 61 2 9292 8072
Email: companysecretary@iag.com.au

OR

The Registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2
159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

Telephone for investor enquiries:
+64 9 488 8777
Facsimile: +64 9 488 8787
Email: enquiry@computershare.co.nz
Website: www.computershare.co.nz/investorcentre

OR

The Trustee

The New Zealand Guardian Trust Company Limited
Level 7
48 Shortland Street
Auckland
New Zealand

Telephone: +64 6 377 7300
Freephone 0800 801 135
Email: ct-auckland@nzgt.co.nz
Attention: Relationship Manager – Corporate Trusts

There is no approved dispute resolution scheme to which complaints about the Bonds can be directed.

11. WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

11.1 Financial statements, Bond Trust Deed and annual reports

Additional information about IAG, the Group and the Bonds is contained or referred to in the Prospectus, the Bond Trust Deed and the Group's most recent annual consolidated financial statements.

A copy of the Group's most recent annual consolidated financial statements (for the year ended 30 June 2011) are available at www.iag.com.au (Click 'Results and Reports'). Documents relating to this issue of Bonds (including the Prospectus and the Conditions) may be viewed free of charge at www.iag.com.au/results. Copies of the publicly filed documents (including the Prospectus) are also filed on a public register maintained by the Companies Office of the Ministry of Economic Development and available for public inspection free of charge at www.business.govt.nz/companies. Copies may also be obtained (on payment of a fee) by telephoning the Companies Office.

11.2 On-request information

Bondholders are also entitled to request copies of:

- the most recent annual audited consolidated financial statements of the Group and all documents that are required to be incorporated in, attached to, or accompany those financial statements when delivered to the Registrar of Financial Service Providers in accordance with the Financial Reporting Act 1993;
- the Bond Trust Deed (incorporating any amendments thereto); and
- the Prospectus.

This information will be made available to Bondholders (including by electronic means) free of charge upon a request in writing being made to IAG or the Registrar (at the addresses set out in the *Directory* at the end of this Investment Statement).

11.3 Ongoing reports to Bondholders

Bondholders will be sent a copy of IAG's annual reports (including the Group's annual audited financial statements) and half-year reports if they tick the relevant box in the Application Form included at the back of this Investment Statement indicating that they wish to receive such reports, either electronically or in hard copy.

Following listing of the Bonds on NZDX, IAG will make periodic reports and announcements to NZX pursuant to the requirements of NZX listing rules. These reports and announcements will be able to be viewed at the News Centre on IAG's website (www.iag.com.au) and on NZX's website (www.nzx.com).



**THIS IS A SUMMARY
OF THE CONDITIONS
OF THE BONDS SET
OUT IN THE BOND
TRUST DEED.**

SUMMARY OF TERMS AND CONDITIONS OF THE BONDS

The Bond Trust Deed is registered with the Companies Office of the Ministry of Economic Development and is available for public inspection free of charge at www.business.govt.nz/companies. The Conditions are for the benefit of and binding on each of the Bondholders and a person claiming through them. The rights and obligations of IAG, the Bondholders and any other relevant persons are determined solely by reference to the Conditions and not this summary.

1. FORM AND DENOMINATION

The Bonds are in registered book entry form and entitlement to Bonds is determined solely by reference to the Register. The Bonds have a face value of NZ\$1.00 per Bond with a minimum subscription of NZ\$5,000 and multiples of NZ\$1,000 thereafter.

2. RANKING AND SUBORDINATION

The Bonds are direct, subordinated and unsecured obligations of IAG and rank:

- *ahead of:*
 - the claims of any holder of a preference share issued by IAG on exchange of the RES or the claims of any holder of any RES against IAG under the RES Terms and the RES Trust Deed in respect of the RES if IAG fails to issue a preference share when required to do so in accordance with the RES Terms;
 - any claims on IAG in respect of the A\$350 million perpetual reset preference shares issued according to a prospectus dated 6 May 2002; and
 - all shareholders and all other creditors whose claims against IAG rank, or are expressed to rank, after the claims of the Bondholders in connection with the Bonds;
- *equally:*
 - amongst themselves and equally with all other creditors whose claims against IAG's rank or are expressed to rank equally with the Bondholders' claims for amounts owing by IAG in connection with the Bonds, including the claims of holders of the £250 million fixed/floating rate subordinated notes of IAG due 2026 in respect of those notes; and
- *behind:*
 - all obligations to Senior Creditors or obligations mandatorily preferred by law; and

- all other creditors whose claims against IAG rank or are expressed to rank ahead of the Bondholders' claims for amounts owing by IAG in connection with the Bonds.

The rights and claims of the Bondholders against IAG in respect of payments under the Bonds are subordinated to the claims of the Senior Creditors. Accordingly, if no Winding Up has occurred:

- the obligations of IAG to make payments of principal and interest and all other amounts due in respect of the Bonds are conditional upon IAG being Solvent at the time of payment by IAG; and
- no payment of principal, interest or other amounts due under the Bonds may be made except to the extent that IAG may make such payment and still be Solvent immediately thereafter.

Any amount not paid as a result of this subordination accumulates, remains a debt owing to the Bondholder by IAG until it is paid and is payable on the first date on which the relevant deferral of interest condition would not apply (whether or not such date is otherwise a payment date).

If a Winding Up has occurred:

- a Bondholder's entitlement in the Winding Up to the principal, interest and other amounts due in respect of the Bonds is subordinated and postponed and subject in right of payment to payment in full of the claims of the Senior Creditors; and
- a Bondholder may only prove in the Winding Up for such amounts as a debt which is subject to prior payment in full of the Senior Creditors, and until the Senior Creditors have been paid in full, the Bondholder must not claim in the Winding Up in competition with the Senior Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior Creditors would have been entitled to receive.

There is no restriction on IAG issuing additional debt that ranks ahead of the Bonds.



3. INTEREST

The Bonds bear interest from and including the Issue Date at the Initial Interest Rate announced for the Bonds on NZX. Interest is payable on the Bonds quarterly in arrears on each Interest Payment Date (being 15 March, 15 June, 15 September and 15 December of each year, commencing on 15 March 2012).

The Initial Interest Rate applies from the Issue Date to the first Rate Reset Date, which is 15 December 2016. At that time, the Interest Rate will be reset on the basis of the issue Margin announced on NZX and the Benchmark Rate. If the Bonds have not been redeemed, the Interest Rate will be reset in this manner on each five yearly Rate Reset Date until maturity.

The Interest Amount payable on each Bond in respect of each Interest Payment Date shall be equal to the Interest Rate per annum on the Principal Amount divided by four. Where it is necessary to compute an amount of interest in respect of any Bond for a period not ending on an Interest Payment Date, such interest shall be calculated on the basis of the actual number of days elapsed and a year of 365 days and rounded to the nearest NZ\$0.01 (NZ\$0.005 being rounded upwards).

Interest accrues on a daily basis and, unless deferred or suspended as described below, is payable in arrears on each Interest Payment Date.

4. INTEREST ON SUBSCRIPTIONS

IAG will pay to each original subscriber for the Bonds (and notwithstanding any transfer of any Bond that may have occurred) interest on the subscription moneys for such Bonds at the Initial Interest Rate (determined in accordance with Condition 4.1(b)) for the period from the date the subscription moneys for such Bonds were credited to IAG's account up to (and excluding) the Issue Date. Early Bird Interest will be paid not later than five Business Days after the Issue Date.

5. OPTIONAL DEFERRAL OF INTEREST

IAG may, on any Optional Interest Payment Date (as defined below), defer the payment of interest on the Bonds which would otherwise be payable on such date. An Optional Interest Payment Date occurs if:

- APRA or another prudential regulatory body requests IAG, the Group or a Regulated Subsidiary to restore or improve its margin of solvency or capital adequacy levels and no interest payments have been made on equally or lower ranking subordinated debt and no dividends have been paid to shareholders since the date of that Regulatory Intervention (as defined below); or
- no interest payments have been made on equally or lower ranking subordinated debt during the financial year in which such Interest Payment Date falls and no dividends or other distributions have been paid to shareholders during the 12 months prior to that Interest Payment Date.

IAG must notify the Bondholders as soon as practicable (and in any event within 10 Business Days after any Optional Interest Payment Date in respect of which payment is deferred) of any Optional Interest Payment Date on which IAG elects to defer the payment of interest (**Deferred Interest Payment**). Any Deferred Interest Payment does not constitute a default for any purpose by IAG and does not give any Bondholder the right to accelerate repayment of the Bonds.

6. ARREARS OF INTEREST – OPTIONAL AND COMPULSORY PAYMENTS

Any Deferred Interest Payment, together with any other interest in respect of the Bonds not paid on any other Interest Payment Date, so long as the same remains unpaid, constitutes Arrears of Interest. Any Arrears of Interest may be paid in whole or in part at any time upon the expiry of not less than 14 days' notice to the Bondholders. All Arrears of Interest (together with all corresponding Additional Interest Amounts) will automatically become immediately due and payable in whole upon the earliest of the following dates:

- the date on which any interest payment or payment in respect of interest on any Junior Securities or Parity Securities (each as defined below) is made (excluding any such payment on any Junior Securities or Parity Securities the terms of which do not enable the issuer of the relevant securities to defer, pass on or eliminate the relevant payment) or on which a dividend or other distribution on any class of IAG's share capital is paid or becomes payable;
- the date on which IAG notifies the Trustee that no Regulatory Intervention (as defined below) that has occurred is or will be continuing on such date, unless IAG is otherwise entitled to defer at such time under the Conditions;
- the date on which IAG commences and does not abandon a public offer to redeem, purchase or acquire any Junior Securities or Parity Securities;
- the date on which a Winding Up Default occurs; or
- the date fixed for any redemption of Bonds or the date fixed for any purchase of Bonds by or on behalf of IAG.

Payment of interest is also subject to the subordination provisions summarised above on page 47.

Junior Securities means any class of IAG's share capital together with any other securities of any other member of the Group ranking or expressed to rank junior to the Bonds either issued directly by IAG or, where issued by a Subsidiary, where the terms of the securities benefit from a guarantee or support agreement entered into by IAG which ranks or is expressed to rank junior to the Bonds.

Parity Securities means any securities of IAG together with any other securities of any other member of the Group ranking or expressed to rank *pari passu* (i.e. equally) with the Bonds, either issued directly by IAG or, where issued by a Subsidiary, where the terms of the securities benefit from a guarantee or support agreement entered into by IAG which ranks or is expressed to rank *pari passu* with the Bonds.

Regulated Subsidiary means any entity engaged in the insurance business and regulated as such by a Relevant Supervisory Authority, in which IAG directly or indirectly holds 20% or more of the voting rights or share capital.

Regulatory Intervention means:

- (a) with respect to IAG, a request from APRA or any Relevant Supervisory Authority to restore or improve any applicable minimum or notional margin of solvency or capital adequacy levels of IAG;
- (b) a request to a Regulated Subsidiary by its Relevant Supervisory Authority to restore either its applicable minimum or notional margin of solvency or capital adequacy levels or a notification to APRA by a Relevant Supervisory Authority that such Relevant Supervisory Authority has made such request to the Regulated Subsidiary; or
- (c) if:
 - (i) prior to any date on which a payment in respect of interest in respect of the Bonds is due; or
 - (ii) on any date on which a payment in respect of interest in respect of the Bonds is due,

IAG or a Regulated Subsidiary has failed (or in the case of (ii) is reasonably likely to so fail immediately after such payment) to meet its applicable minimum or notional margin of solvency or capital adequacy levels

as at the later of (1) the date of the most recent audited accounts of IAG or, as the case may be, a Regulated Subsidiary or, (2) the date such levels were most recently tested for regulatory purposes, or (3) any date selected by the board of directors (or other management body) of IAG or, as the case may be a Regulated Subsidiary, falling on or prior to the date such payment is, or otherwise would be, due.

A Regulatory Intervention is deemed to be continuing until such date as, in the case of (a) or (b), the relevant margins of solvency or capital adequacy levels have been restored or improved to the satisfaction of the Relevant Supervisory Authority or the request is otherwise withdrawn or addressed to the satisfaction of the Relevant Supervisory Authority or, in the case of (c), the first date on which IAG or a Regulated Subsidiary, as applicable, meets its applicable minimum or notional margin of solvency or, as the case may be, capital adequacy levels, as determined and so certified to the Trustee by two directors of IAG.

Relevant Supervisory Authority means any regulator having jurisdiction over IAG or the Group, on a consolidated basis, or any Regulated Subsidiary from time to time.

Subsidiary means a subsidiary as defined in section 46 of the Corporations Act.

7. ADDITIONAL INTEREST AMOUNTS

Interest will accrue on each amount of Arrears of Interest at the relevant Interest Rate, and such amount of interest (**Additional Interest Amount**) will become due and payable by applying the Interest Rate to the amount of the Arrears of Interest. All Additional Interest Amounts accrue and are payable on the same basis as interest on a Bond, subject to deferral on the same basis as interest.

All Additional Interest Amounts accrued up to any Interest Payment Date and not paid on such Interest Payment Date will be added, for the purpose only of calculating the Additional Interest Amounts accruing thereafter, to the amount of Arrears of Interest remaining unpaid on such Interest Payment Date.

8. REDEMPTION ON MATURITY DATE

Unless previously redeemed or purchased and cancelled, IAG will redeem the Bonds at their Principal Amount on the Maturity Date, together with any accrued but unpaid interest on the Bonds on that date, including any Deferred Interest Amount and Additional Interest Amounts that are payable (without double counting).

Any redemption or purchase of a Bond by IAG prior to the Maturity Date is subject to the prior written consent of APRA.

9. EARLY REDEMPTION AT THE OPTION OF IAG

IAG may (subject to having obtained the prior written consent of APRA and having given notice to the Bondholders) redeem all (but not some only) of the Bonds on:

- each Rate Reset Date at their Principal Amount plus any accrued interest unpaid; or
- following the first Rate Reset Date, any Interest Payment Date that is not a Rate Reset Date, at the greater of the Principal Amount plus accrued interest unpaid and Market Price.

10. EARLY REDEMPTION FOR TAXATION REASONS

If at any time:

- IAG would be required to pay any Additional Amounts as a result of deductions for certain Australian taxes (refer to *Taxation* on page 56); or
- the interest payable in respect of the Bonds is not or may not be allowed as a deduction to IAG for Australian income tax purposes as a result of a change of law or regulations, or a determination to that effect is made by IAG or the Australian Taxation Office,

IAG may (subject to having obtained the prior written consent of APRA and having given notice to the Bondholders), redeem all of the Bonds, or all of the Bonds in respect of which IAG would be obliged to pay Additional Amounts, on any Interest Payment Date for their Principal Amount, plus any accrued interest unpaid.

Prior to giving notice of any such redemption, IAG must deliver to the

Trustee a certificate signed by one of its authorised representatives stating that it is entitled to redeem the relevant Bonds and an Additional Amount cannot be avoided by IAG taking reasonable measures available to it, and an opinion of independent legal or tax advisers of recognised standing in Australia to the effect that IAG would be required to pay an Additional Amount on the next Interest Payment Date or, as applicable, the interest payments on the Bonds may not be allowed as a deduction for Australian income tax purposes.

11. EARLY REDEMPTION FOR REGULATORY REASONS

If, at any time prior to the First Call Date, a change of applicable laws or regulations has the effect that, or a determination is made by APRA to the effect that, the Bonds do not qualify as Tier 2 Capital (or its equivalent concept) of the Group (on a consolidated basis) under the standards or guidelines published by APRA (a **Regulatory Event**) as applied to the Group in an amount equal to 100% of the Principal Amount of the Bonds for the time being outstanding, IAG may (subject to having obtained the prior written consent of APRA and having given notice to the Bondholders), redeem all (but not some only) of the Bonds at the greater of:

- Principal Amount, plus accrued interest unpaid; and
- Market Price.

Prior to giving notice of any such redemption, IAG must deliver to the Trustee a certificate stating that it is entitled to redeem the Bonds under this Condition.

12. REPURCHASE OF BONDS

IAG or any of its Related Bodies Corporate (as defined in the Corporations Act) may (subject to having obtained the prior written consent of APRA in the case of IAG or any of its Subsidiaries) at any time purchase some or all of the Bonds on the open market, by private contract or otherwise and at any price. Bonds purchased by or for the account of IAG or any of its Related Bodies Corporate may be held, cancelled or re-sold at the option of the purchaser.

13. PAYMENTS IN RESPECT OF BONDS

Payments on the Bonds will be made to the person whose name appears in the Register as the Bondholder on the Record Date in respect of the relevant payment. If more than one person is so named in the Register, payment will be made to the first person so named.

A Bondholder may, by written notice to the Registrar, request the Registrar to make payments in respect of any Bond held by it to a specified bank account and at any time cancel or amend any notice so given (provided that such notice will only have effect in respect of any payment if received by the Registrar on or before the Record Date for that payment). In the absence of any such notice, payments in respect of each Bond are to be made by posting a cheque to the address of the relevant Bondholder appearing in the Register. Any notice given under this Condition will be taken to be automatically cancelled upon transfer of a Bond.

All payments are subject to deduction for applicable taxes (refer to *Taxation* on page 53). No commissions or expenses shall be charged to the Bondholders in respect of such payments.

The obligation of IAG prior to the occurrence of a Winding Up Default to make payments when due is conditional upon IAG being Solvent immediately before and after the payment.

Any payment made to a Bondholder which is returned unclaimed and any amount due to a Bondholder whose address and bank account details are unknown, will (unless the Registrar has in the meantime received notice of a change of address to be entered in the Register) be retained by the Registrar to be held by it for the Bondholder concerned without any liability to invest or pay interest on that amount. Any money not claimed within a period of six months from the original date of payment must be returned to IAG, and the Bondholder will be entitled to payment after providing evidence of that Bondholder's entitlement. If the amount concerned remains unclaimed six years after the original date of payment, IAG will become beneficially entitled to that amount.

14. EVENTS OF DEFAULT

It is an Event of Default, whether or not it is within the control of IAG, if:

- IAG does not pay any principal, Early Redemption Amount or Early Redemption Amount (Make-whole) due in respect of the Bonds within seven days of its due date;
- IAG does not pay any interest or other amount due in respect of the Bonds within 30 days of its due date (other than any interest on the Bonds that is deferred in accordance with the Conditions); or
- a Winding Up occurs other than:
 - where the order is successfully appealed or stayed within 30 days; or
 - for the purposes of a consolidation, amalgamation, merger or reconstruction (the terms of which have been approved by the shareholders of IAG or by a court of competent jurisdiction) under which the continuing or resulting corporation effectively assumes the entire obligations of IAG under the Bonds.

Bondholders should note that if IAG does not satisfy the solvency Condition to payment or if IAG has elected to defer payment of interest (in either case under the relevant Conditions described above), IAG is not obliged to make such payment and, accordingly, an Event of Default as a result of non-payment cannot occur. Any amount not paid for these reasons remains a debt owing to the Bondholder by IAG until it is paid.

If an Event of Default occurs and is continuing, a Bondholder may:

- initiate proceedings to recover any amount then due and payable but unpaid on the Bond (subject to IAG being able to make the payment and remain Solvent);
- initiate proceedings to obtain an order for specific performance of any other obligation under the Bond;
- initiate proceedings for the Winding Up; or
- if the Event of Default is a Winding Up Default, by notice to IAG and the Trustee declare that the Bond must be redeemed immediately for its Early Redemption Amount.

The Bondholders may not exercise any remedies against IAG as a consequence of an Event of Default other than as specified above.

15. MEETINGS OF BONDHOLDERS

The Bond Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of the Conditions or any of the provisions of the Bond Trust Deed. Such a meeting may be convened by IAG at any time and shall be convened if required by Bondholders holding not less than 10% of the aggregate Principal Amount.

Any Extraordinary Resolution duly passed is binding on Bondholders (whether or not they were present or represented at the meeting at which such resolution was passed).

16. MODIFICATIONS

IAG and the Trustee may agree, with the prior approval of APRA, but without the consent of the Bondholders, to any modification of any of the Conditions or any of the provisions of the Bond Trust Deed as described under *Can the investment be altered?* on page 42.

17. NOTICES

Notices to the Bondholders shall be made to them by way of a duly published NZX announcement. Alternatively, notices may be published in a daily newspaper having general circulation in New Zealand (which is expected to be *The New Zealand Herald*).



TAXATION

1 INTRODUCTION

The returns on the Bonds will be affected by taxes. If a law requires IAG (which for the purposes of this section of this Investment Statement includes the Registrar acting on IAG's behalf) or the Trustee to deduct an amount in respect of taxes from a payment to a Bondholder, or to pay an amount of any levy in respect of such a payment, then IAG or the Trustee will deduct the amount for the taxes and pay it to the relevant authority.

Neither IAG nor the Trustee is obliged to gross up, indemnify or otherwise compensate or pay any additional amounts to the Bondholder as a consequence of or otherwise in connection with such deductions. Each Bondholder indemnifies IAG in respect of any payment which IAG becomes liable to make for or on account of tax payable by that Bondholder in relation to any Bond. IAG may deduct any indemnity payment from future amounts payable to that Bondholder.

2 NEW ZEALAND TAXATION

2.1 Scope of advice

The information set out in this section provides a summary of the New Zealand income tax consequences to Bondholders with respect to their investment in the Bonds. The information is believed by IAG to be correct as at the date of this investment Statement.

The information contained in this section is of a general nature only and does not constitute taxation advice to any particular investor. It does not attempt to address all of the taxation consequences that may be relevant to Bondholders. Taxation laws are subject to change, and such changes may materially affect a Bondholder's tax position with respect to their investment in the Bonds. Bondholders should seek qualified independent taxation advice for their own particular circumstances.

The information contained in this section is based on the New Zealand income tax laws and published Inland Revenue policy and practice as at the date of this Investment Statement.

All Bondholders (including those resident outside New Zealand) must give written notice to the Registrar (or, where applicable, to the custodian/nominee registered as the Bondholder in respect of the Bonds on behalf of the beneficial owner) of their country of residence for taxation purposes and, if not New Zealand tax resident, whether the Bondholder is engaged in business in New Zealand through a fixed establishment in New Zealand. This requirement for written notice is satisfied for initial Bondholders where the relevant parts of the Application Form are completed by applicants.

2.2 Definitions

In this section:

- Bondholders who are resident in New Zealand for taxation purposes are referred to as **Resident Bondholders**.
- Bondholders who are not resident in New Zealand for taxation purposes but who are engaged in business in New Zealand through a fixed establishment in New Zealand are referred to as **NZ Branch Bondholders**.
- Resident Bondholders and NZ Branch Bondholders are collectively referred to as **NZ Bondholders**.
- Bondholders who are neither resident in New Zealand for taxation purposes nor engaged in business in New Zealand through a fixed establishment in New Zealand are referred to as **Non-resident Bondholders**.



2.3 Resident withholding tax

Resident withholding tax (**RWT**) will be deducted from the gross amount of interest paid or credited to Resident Bondholders and NZ Branch Bondholders in accordance with the provisions of the Income Tax Act 2007 (New Zealand) or any successor Act (**Tax Act (NZ)**).

RWT will not be deducted if a Bondholder provides the Registrar/IAG with a copy of a current RWT exemption certificate.

NZ Bondholders should notify the Registrar/IAG of any changes to their elected RWT rates as a result of changes to their particular circumstances.

Individuals

As at the date of this Investment Statement, individual Resident Bondholders who are subject to RWT and have provided their IRD number to the Registrar/IAG will be able to elect one of the following RWT rates:

- 33%;
- 30%;
- 17.5%; or
- 10.5%.

The 10.5% rate can only be elected if a Resident Bondholder has a reasonable expectation at the time of making the election that his or her income for the income year will be NZ\$14,000 or less.

For individual Resident Bondholders who have not provided their IRD number to the Registrar / IAG, the applicable rate of RWT at the date of this Investment Statement is 33%.

Depending on an individual Resident Bondholder's level of annual income, electing a RWT rate lower than the individual Resident Bondholder's personal marginal tax rate may result in a requirement to file an income tax return (or the provision of an income statement by Inland Revenue) to account for the tax shortfall. Conversely, if an individual Resident Bondholder elects a RWT rate higher than the individual Resident Bondholder's personal marginal tax rate, a tax return may need to be filed in order to obtain the relevant tax refund. Investors are urged to seek their own tax advice in this respect.

Trustees and Māori authorities

As at the date of this Investment Statement, Resident Bondholders and NZ Branch Bondholders that are trustees or Māori authorities who are subject to RWT and have provided their IRD number to the Registrar/IAG will be able to elect one of the following RWT rates:

- 33%;
- 30%; or
- 17.5%.

For trustee or Māori authority Bondholders who have not provided their IRD number to the Registrar / Issuer, the applicable rate of RWT at the date of this Investment Statement is 33%.

Special rules apply regarding the RWT rates that can be elected by certain Bondholders who are trustees of a testamentary trust and Bondholders that are non-trust Māori authorities.

Companies

As at the date of this Investment Statement, a Resident Bondholder or NZ Branch Bondholder that is a company (other than a Māori authority or a trustee) that has provided its tax file number to the Registrar / IAG will have RWT deducted at the rate of 28%. However, a corporate Bondholder can, by notice in writing to the Registrar / IAG, elect to have a higher rate of RWT deducted if it so wishes.

For corporate Bondholders who have not provided their IRD number to the Registrar / IAG, RWT will be deducted at the rate of 30%.

2.4 Approved issuer levy and non-resident withholding tax

IAG may register as an "approved issuer" and register the Bonds and the application monies as "registered securities" with Inland Revenue for the purposes of the Approved Issuer Levy (**AIL**) regime. In these circumstances, unless otherwise agreed, IAG will, via the Registrar, deduct and pay AIL (currently 2% of amounts treated as interest) from payments made or credited to Non-resident Bondholders.

As at the date of this Investment Statement, the New Zealand Government has introduced legislation in the Taxation (International Investment and Remedial Matters) Bill to reduce the AIL rate to 0% on listed or other types of widely held bonds issued to non-residents. However, as at the date of this Investment Statement, the Government has yet to pass the legislation into law to give effect to this change. If enacted in its current form, it is expected that the Bonds should satisfy the requirements to apply a 0% AIL rate. If this is the case, then the Registrar/IAG will apply the 0% rate of AIL, where it is lawfully able, from payments made or credited to Non-resident Bondholders.

Non-resident Bondholders may request, by written notice to the Registrar/IAG, that AIL not be deducted from interest paid or credited in respect of their Bonds, and that non-resident withholding tax (**NRWT**) be deducted at 15% or such rate as specified in a double tax agreement that applies to that Non-resident Bondholder.

If a Non-resident Bondholder derives interest under the Bonds jointly with one or more NZ Bondholders then NRWT must be deducted from the interest paid or credited to the Non-resident Bondholder at the applicable NRWT rate. In such cases, the Non-resident Bondholder may be entitled to claim a refund of NRWT to the extent that NRWT was deducted at a rate higher than that set out in any applicable double tax agreement.

2.5 New Zealand financial arrangement rules

Resident Bondholders and NZ Branch Bondholders who acquire the Bonds for the purpose of the business which they carry on through their New Zealand fixed establishment will be entering into a financial arrangement which is subject to the “financial arrangement rules” in the Tax Act (NZ). Interest paid to these Bondholders under the Bonds will be income that is taxable at the Bondholder’s relevant tax rate (with a credit for any RWT deducted).

The timing of that income will be governed by the financial arrangement rules. The financial arrangement rules require that income or expenditure arising in relation to the Bonds be spread over the life of the Bonds using an applicable method under those rules.

Bondholders who are “cash basis persons” for the purpose of the financial arrangements rules will be entitled to recognise income on a receipt basis.

Bondholders who are not cash basis persons will be required to spread the income or expenditure using the spreading methods prescribed in the financial arrangements rules. Methods available may depend on the particular circumstances of the Bondholder.

The financial arrangement rules may cause Bondholders to derive income or incur expenditure on the transfer of the Bonds held by them. For example, if a gain is made on the transfer of the Bonds by Bondholders to whom the financial arrangement rules apply, the “base price adjustment” performed under the financial arrangements rules will bring the gain to account for New Zealand tax purposes and will require that gain to be included in the Bondholder’s income. Where a Bondholder incurs a loss on the transfer of the Bonds, that loss may be deductible to the Bondholder.

The financial arrangements rules may also apply to certain Non-resident Bondholders who are trustees of a trust which has a New Zealand tax resident settlor.

Although the financial arrangements rules do not apply to NZ Branch Bondholders who do not acquire the Bonds for the purpose of the business which they carry on through a New Zealand fixed establishment and also do not apply to Nonresident Bondholders (except in

limited circumstances as noted above), those categories of Bondholders may potentially be subject to New Zealand tax on any gains derived from a sale of the Bonds.

Bondholders should ascertain whether New Zealand’s provisional tax rules apply to their individual situations.

2.6 Double tax agreements

As referred to above, if a Non-resident Bondholder requests that AIL is not deducted from interest paid or credited in respect of their Bonds, and that NRWT be deducted the rate will be 15% unless a double tax agreement applies and specifies a lower rate.

As at the date of this Investment Statement, New Zealand has double tax agreements in force with the following jurisdictions:

| | |
|----------------|----------------------|
| Australia | Malaysia |
| Austria | Mexico |
| Belgium | Netherlands |
| Canada | Norway |
| Chile | Philippines |
| China | Poland |
| Czech Republic | Russian Federation |
| Denmark | Singapore |
| Fiji | South Africa |
| Finland | Spain |
| France | Sweden |
| Germany | Switzerland |
| India | Taiwan |
| Indonesia | Thailand |
| Ireland | Turkey |
| Italy | United Arab Emirates |
| Japan | United Kingdom |
| South Korea | United States |

Non-resident Bondholders should seek independent taxation advice to determine whether any of the above double tax agreements apply to their circumstances.



3 AUSTRALIAN TAXATION

3.1 Introduction

The information set out in this section provides a summary of the Australian income tax consequences to Bondholders with respect to their investment in the Bonds. The information is believed by IAG to be correct as at the date of this Investment Statement.

The information provided in this section is of a general nature only and does not constitute taxation advice to any particular investor. It does not attempt to address all of the taxation consequences that may be relevant to Bondholders. Taxation laws are subject to change, and such changes may materially affect a Bondholder's tax position with respect to their investment in the Bonds. Bondholders should seek qualified independent taxation advice for their own particular circumstances.

The information contained in this section is based on the Australian income tax laws as at the date of this investment Statement.

In this section it is assumed that:

- the Bonds will be issued only to those persons who are regarded as residents of New Zealand for both Australian and New Zealand income tax purposes and do not acquire the Bonds in connection with a permanent establishment in Australia;
- those persons will be the beneficial owner of the Bonds;
- the Bonds will not be issued in connection with a permanent establishment of IAG in New Zealand; and
- the Bonds will be accepted for listing upon NZDX.

3.2 Australian Interest Withholding Tax

IAG is an Australian resident for Australian income tax purposes. Interest paid by IAG to a non-resident of Australia will, in the absence of an available exemption, be subject to interest withholding tax.

In this case, the Bonds will be issued in a manner which will comply with the exemption from interest withholding tax in section 128F of the Income Tax Assessment Act 1936 (Commonwealth

of Australia) or any successor Act (**1936 Tax Act**). In particular, the Bonds will be debentures for the purposes of that section and will be issued in such a way as to satisfy the “public offer test” by being accepted for listing upon NZDX. Listing of the Bonds will be sought by IAG pursuant to an agreement with the Joint Lead Managers. Consequently, subject to the discussion immediately below no Australian interest withholding tax should be imposed in respect of any payment of interest, or an amount deemed to be interest, upon the Bonds.

The “public offer test” is not satisfied if, at the time of issue, and the exemption is not available if at the time of payment, IAG knows, or had reasonable grounds to suspect, that the Bonds, or an interest in the Bonds was being, or would be acquired, directly or indirectly, by an associate of IAG that was non-resident of Australia acting other than in the capacity of a dealer, manager or underwriter in relation to the placement of the Bonds or a clearing house, custodian, funds manager or responsible entity of a registered scheme within the meaning of the Corporations Act.

As payments of interest upon the bank are exempt from interest withholding tax under section 128F of the 1936 Tax Act the investors will not be subject to any withholding tax imposed by the rules relating to the failure to quote to IAG either a Tax File Number or an Australian Business Number.

3.3 Gains or Losses on the disposal of Bonds

Gains made by New Zealand residents upon any disposal of the Bonds should not be subject to Australian income tax. Such gains should be regarded as having a source outside of Australia and accordingly should not be included in assessable income under any provision of either the 1936 Tax Act or the Income Tax Assessment Act 1997 (Commonwealth of Australia) or any successor Act (**1997 Tax Act**). Furthermore, such a gain should be excluded from Australian taxation by the terms of the New Zealand/Australia double tax convention.

As the Bonds do not constitute “taxable Australian property” for the purposes of Division 855 of the 1997 Tax Act no

Australian capital gains tax should be imposed in respect of any gain made upon the disposal of the Bonds.

3.4 Bonds are a debt interest

The Bonds should be a debt interest for the purposes of Division 974 of the 1997 Tax Act as the terms of the Bonds disclose “effectively non-contingent obligations” upon IAG to pay to their holders amounts of both principal and interest. The terms by which the Bonds are subordinated to other creditors of IAG should not effect that conclusion. Consequently, the Bonds are eligible for exemption from interest withholding tax under section 128F of the 1936 Tax Act and should not be considered as giving rise to frankable distributions.

3.5 Other matters

Subdivision 12-FB of the Taxation Administration Act 1953 (Commonwealth of Australia) or any successor Act (**1953 Tax Act**) imposes withholding obligations in respect of certain payments, to be prescribed by regulation, that are made to non-residents of Australia.

The 1953 Tax Act expressly provides that the regulations will not apply to interest and other payments which are already subject to the current interest withholding tax rules or specifically exempt from those rules. Further, regulations may only be made if the responsible minister is satisfied payments are of a kind that could reasonably relate to assessable income of foreign residents. It is not expected that the regulations will apply to repayments of principal under the Bonds, as such amounts are not generally income or gains.

The issue, receipt, disposal or redemption of the Bonds will not be subject to any GST imposed in Australia as the issue of the Bonds is either GST-free (as a supply made outside of Australia) or is input taxed as a financial supply.

No stamp duty should be payable in Australia on the issue, receipt, disposal or redemption of the Bonds.





GLOSSARY

In this Investment Statement, unless the context otherwise requires:

1936 Tax Act means the Income Tax Assessment Act 1936 (Commonwealth of Australia) or any successor Act.

1953 Tax Act means the Taxation Administration Act 1953 (Commonwealth of Australia) or any successor Act.

1997 Tax Act means the Income Tax Assessment Act 1997 (Commonwealth of Australia) or any successor Act.

A\$ or AUD means Australian dollars.

Additional Amounts has the meaning given to that term in the Conditions as summarised under *Redemption by issuer* on page 37.

Additional Interest Amounts has the meaning given to that term in the Conditions as summarised under *Additional interest amounts* on page 49.

Application Form means an application form attached to this Investment Statement.

Approved Issuer Levy means, in relation to any payment of interest, the levy of 2% of such interest amount that is payable in accordance with New Zealand tax law to enable the payment of that interest to be made to any non-resident for tax purposes with a deduction for New Zealand non-resident withholding tax at the rate of 0%.

APRA means the Australian Prudential Regulation Authority as constituted under the Australian Prudential Regulation Authority Act 1998 of Australia. APRA is the primary prudential regulator of IAG.

Arrears of Interest has the meaning given to that term in the Conditions as summarised under *Arrears of interest – optional and compulsory payments* on page 49.

ASX means ASX Limited.

Benchmark Rate is the five year swap rate used to set the Initial Interest Rate and to reset the Interest Rate at five yearly intervals. It is defined in the Conditions to mean (in summary) the rate per annum (expressed on a percentage yield basis rounded to the nearest two decimal places), which is determined by IAG by reference to the mid market swap rate for a five year term, being the average of the bid and offer rates as displayed on Reuters page ICAPAUKIWISWAP (or any successor page) at or about 3pm on the

Rate Set Date or Rate Reset Date (as applicable) (adjusted as necessary to a quarterly rate).

Bond Moneys means, in relation to a Bond at any time, the Principal Amount, interest and other moneys payable on, or in relation to, that Bond to the relevant Bondholder.

Bond Trust Deed means the master trust deed as supplemented by the supplemental deed, each entered into by IAG and the Trustee on 4 November 2011, pursuant to which the Bonds are constituted, and includes the terms and conditions appended to the supplemental deed. The Bond Trust Deed and the Conditions are summarised under *Summary of terms and conditions of the Bonds* from page 47.

Bondholder means a person whose name is recorded in the Register as the holder of a Bond.

Bonds mean the unsecured, subordinated, fixed rate bonds offered by IAG under this Investment Statement.

Business Day means a day, other than a Saturday or a Sunday, on which registered banks are open for general business in Auckland and Wellington and NZDX is open for trading.

Call Date means each date on which the Bonds may be redeemed by IAG, being the First Call Date of 15 December 2016 and each Interest Payment Date thereafter.

Closing Date means the end of the offer period for the Bonds, being 12 December 2011 or such other date that IAG may determine.

Co-Managers means Macquaire Securities (NZ) Limited and Westpac Banking Corporation, New Zealand Branch.

Conditions means the terms and conditions of the Bonds as set out in the Bond Trust Deed.

Corporations Act means the Corporations Act 2001 (Commonwealth of Australia).

Deferred Interest Amount means any Interest Amount the payment of which has been deferred by IAG in accordance with the Conditions as summarised under *Optional deferral of interest* on page 48, and constituting Arrears of Interest and which remains unpaid.

Deferred Interest Payment means any deferral of interest on the Bonds in

accordance with the Conditions and **Deferred Interest** means any interest so deferred.

Early Bird Interest means interest paid at the Interest Rate on application money held on trust by the Registrar from the date on which subscription money is banked to the Offer trust account to (but excluding) the Issue Date (after deducting any applicable withholding taxes) where an application is successful. Early Bird Interest will be paid not later than five Business Days after the Issue Date.

Early Redemption Amount means, in relation to a Bond to be redeemed prior to its Maturity Date, the Principal Amount of the Bond together with any accrued but unpaid interest on the Bond to the date on which the Bond is to be redeemed, including any Deferred Interest Amount and Additional Interest Amounts payable in accordance with the Conditions (without double counting).

Early Redemption Amount (Make-whole) means, in relation to a Bond to be redeemed prior to its Maturity Date, the higher of the Early Redemption Amount and the amount calculated by IAG as being the Market Price of that Bond.

Extraordinary Resolution means a resolution of Bondholders as described under *Answers to important questions* on page 42.

Event of Default has the meaning given to that term in the Bond Trust Deed, as summarised on page 51.

Firm Allocation means an application for Bonds made by a Joint Lead Manager, Co-Manager or other approved financial intermediary under a Firm Allocation letter accepted by or on behalf of IAG.

First Call Date means the first date on which the Bonds may be redeemed by IAG, being 15 December 2016.

Gross Written Premium or GWP means the total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.

Group means the statutory consolidated group comprising IAG and its subsidiaries. The Group and its activities are described under *Corporate profile* on page 15.

IAG means Insurance Australia Group Limited, the issuer of the Bonds.

Interest Amount means the amount of interest payable on the Bonds, and for the avoidance of doubt, includes any Deferred Interest Amount and any Additional Interest Amounts.

Interest Payment Date means 15 March, 15 June, 15 September, 15 December of each year until redemption of the Bonds, commencing on 15 March 2012 (other than for Early Bird Interest, which is to be paid not more than five Business Days after the Issue Date).

Interest Rate means up until the First Call Date, the Initial Interest Rate and thereafter, if the Bonds are not redeemed, the aggregate of the Benchmark Rate and the Margin at the Rate Reset Date.

Initial Interest Rate means the rate of interest per annum payable on the face value of the Bonds as set by IAG in consultation with the Joint Lead Arrangers; and being the greater of the Minimum Interest Rate; and the Margin plus the Benchmark Rate on the Rate Set Date and announced prior to the Issue Date.

Investment Statement means this investment statement dated 4 November 2011.

Issue Date means 15 December 2011 or such other date as IAG may determine and announce.

Issue Price means NZ\$1.00 per Bond.

Joint Lead Arrangers means ANZ National Bank Limited and UBS New Zealand Limited.

Joint Lead Managers means ANZ National Bank Limited, Bank of New Zealand, Craigs Investment Partners Limited, Forsyth Barr Limited and UBS New Zealand Limited.

Long-tail means classes of insurance with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.

Margin means the margin, expressed as a percentage per annum, determined by IAG in consultation with the Joint Lead Arrangers for the offering of the Bonds, and announced on or before the Opening Date.

Market Price means:

- the price (rounded to the nearest full cent) as calculated by reference to the average of the daily volume weighted average market yield of the Bonds sold on NZDX during the 10 Business Days prior to the twentieth Business Day before the relevant early redemption date, excluding any “crossing” transacted outside the open session or any “special crossing” transacted at any time outside New Zealand; or
- if the Bonds have not traded on NZDX for at least half of such 10 Business Day period, the current market price of that Bond determined by an independent adviser with reference to bids from four reference banks,

(for the avoidance of doubt) taking into account any accrued but unpaid interest on the Bond to the date on which the Bond is to be redeemed, including any Deferred Interest Amount and Additional Interest Amounts that is payable (without double counting).

Maturity Date means the date of repayment of the Bonds, being 15 December 2036 unless the Bonds are redeemed earlier in accordance with the Bond Trust Deed.

Minimum Capital Requirement or MCR means the capital required by IAG’s primary prudential regulator, APRA, to be maintained in order to enable the Group’s insurance obligations to be met under a wide range of circumstances. MCR is calculated on a risk-based assessment for measurement of assets and liabilities under the prudential principles for insurance companies.

Minimum Interest Rate means the interest rate announced by IAG on or before the Opening Date.

NZ\$ or NZD means New Zealand dollars.

NZClear System means the securities clearing and settlement facility operated by the Reserve Bank of New Zealand and known as the NZClear System (previously called Austraclear New Zealand).

NZDX means the registered market under the Securities Market Act 1988 operated by NZX, on which the Bonds are to be listed and quoted.

NZX means NZX Limited (which is a registered exchange).

NZX Firm means a firm that has been accredited as a market participant of NZX.

Offer means the offer by IAG of the Bonds under this Investment Statement and the Prospectus.

Opening Date means the first date of the offer period for the Bonds, being 16 November 2011 or such other date as IAG may determine.

Organising Participant means UBS New Zealand Limited.

Principal Amount means, in relation to a Bond, the amount (other than interest) payable on redemption or repayment of that Bond, being the amount recorded as such in the Register in respect of that Bond.

Prospectus means the registered prospectus for the Bonds dated 4 November 2011.

Rate Reset Date means 15 December 2016 and each fifth anniversary of that date, provided that if any such date is not a Business Day it shall be postponed to the next Business Day.

Rate Set Date means 13 December 2011 or such other date, being a Business Day, as IAG may select.

Record Date means, in relation to a payment due on a Bond, the tenth calendar day before the relevant Interest Payment Date or Maturity Date.

Register means the register of the Bonds maintained by the Registrar.

Registrar means Computershare Investor Services Limited, which is appointed as the registrar and paying agent of the Bonds.

Regulatory Event means a change of applicable laws or regulations that has the effect that, or a determination is made by APRA to the effect that, the Bonds do not qualify as Tier 2 Capital (or its equivalent concept) of the Group (on a consolidated basis) under the standards or guidelines published by APRA.

RES means the A\$550 million perpetual reset exchangeable securities issued by IAG Finance (New Zealand) Limited in accordance with the RES Trust Deed.

RES Terms means the terms and conditions of the RES under the RES Trust Deed.

RES Trust Deed means the trust deed dated 15 December 2009 in respect of the RES.

Senior Creditors means all unsecured and unsubordinated creditors of IAG. More specifically, it is defined in the Conditions to include all creditors of IAG whose claims would be entitled to be admitted in the Winding Up, other than:

- the Bondholders of the Bonds, and holders of the £250 million fixed/floating rate subordinated notes of IAG due 2026;
- creditors whose claims rank or are expressed to rank *pari passu* (i.e. equally) with the claims of the Bondholders in connection with the Bonds (which includes all creditors, present or future, to whom IAG is indebted) where the terms of such indebtedness:
 - provide that such indebtedness will become due and payable on a specified or determinable date or at the end of a specified or determinable period, and that in the event of a liquidation or irrevocable Winding Up of IAG, the claims of those creditors against IAG will be, or are expressed to be, subordinated in right of payment to the claims of all non-subordinated creditors of IAG; and
 - do not provide that in the event of a liquidation or irrevocable Winding Up of IAG, the claims of those creditors against IAG will rank, or are expressed to rank, ahead of the claims of any other subordinated creditors of IAG to whom IAG is indebted on terms which conform to the foregoing description; and
- creditors whose claims against IAG rank, or are expressed to rank, after the claims of the Bondholders in connection with the Bonds (which includes all creditors, present and future, to whom IAG is indebted where the terms of such indebtedness provide that such indebtedness is undated or perpetual or otherwise of no fixed or determinable maturity, and that in the event of a liquidation or irrevocable Winding Up of IAG the claims of those creditors against IAG will be, or are expressed to be, subordinated in right of payment to the claims of all non-subordinated creditors of IAG and any or all of the creditors of IAG referred to in the second bullet point above).

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

Solvency II means the European community's prudential standards for insurance companies.

Solvent means, in relation to IAG, that:

- IAG is able to pay its debts as they fall due; and
- the non-consolidated gross assets of IAG exceed its non-consolidated gross liabilities.

Tax Act (NZ) means the Income Tax Act 2007 (New Zealand) or any successor Act.

Tax Event means at any time:

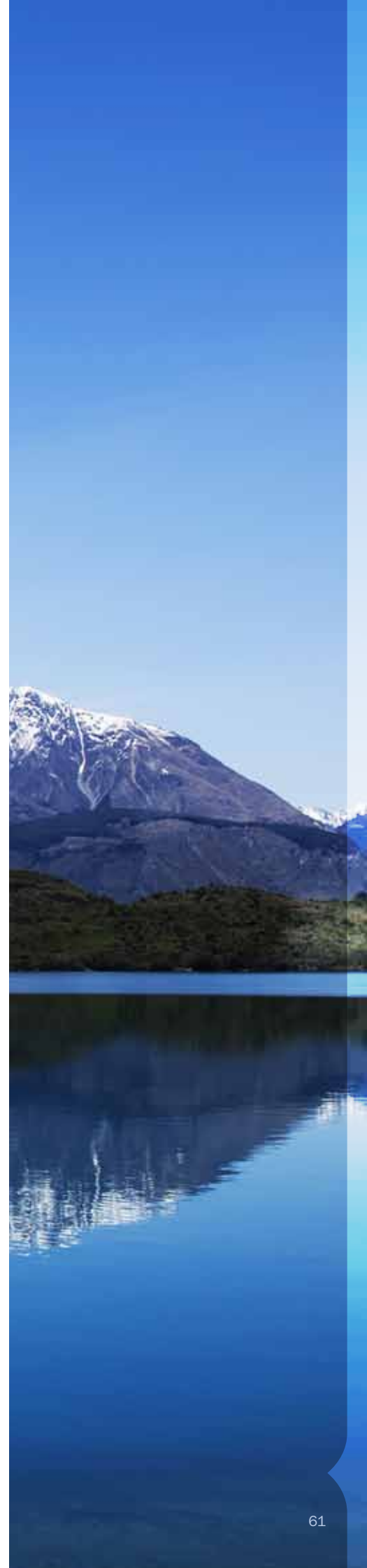
- IAG would be required to pay any Additional Amounts as a result of deductions for certain Australian taxes; or
- the interest payable in respect of the Bonds is not or may not be allowed as a deduction to IAG for Australian income tax purposes as a result of a change of law or regulations, or a determination to that effect is made by IAG or the Australian Taxation Office.

Trustee means The New Zealand Guardian Trust Company Limited.

Winding Up means:

- an order is made by a state or federal court in the Commonwealth of Australia for the winding up of IAG; or
- an effective resolution is passed by shareholders or members of IAG for the winding up of IAG.

Winding Up Default means an Event of Default as a result of Winding Up (refer to *Events of Default* on page 51).





APPLICATION INSTRUCTIONS AND APPLICATION FORMS

An application will constitute an irrevocable offer by the applicant to subscribe for and acquire the Principal Amount of the Bonds specified on the Application Form (or such lesser amount which IAG may determine) on the terms and conditions set out in this Investment Statement, the Prospectus, the Bond Trust Deed and the Application Form.

An application cannot be withdrawn or revoked by the applicant once it has been submitted.

IAG's decision on the aggregate Principal Amount of the Bonds to be allotted to an applicant and as to whether to accept or reject an Application Form, or to treat it as valid, will be final.

Applications to subscribe for the Bonds must be made on the Application Form contained in this Investment Statement. Please complete all relevant sections of the Application Form using BLOCK LETTERS. IAG may accept any Application Form not correctly completed as being valid, and may correct errors and omissions, in its sole discretion.

A. INVESTOR DETAILS

Insert your full name(s). Applications must be in the name(s) of natural persons, companies or other legal entities, up to a maximum of three names per application. See the table below for correct name conventions.

Insert your postal address as all correspondence relating to your holding

in the Bonds will be sent to you at this address. For joint applicants, only one address is to be entered.

Provide your telephone number so that the Registrar or IAG can contact you in relation to your application if required.

B. APPLICATION PAYMENT DETAILS AND PAYMENT OF FUTURE INTEREST

Payment must be made in New Zealand dollars for immediate value by

1. a direct debit authorisation;
2. a cheque drawn on a New Zealand bank account (or, if the application is for the Bonds of an aggregate subscription amount of NZ\$500,000 or more, by bank cheque); or
3. via the NZClear System (institutional investors only) or by prior arrangement with the Registrar.

Complete the amount of the Bonds applied for. Each Bond has a Principal Amount of NZ\$1.00. Note the minimum amount of the Bonds that you can apply for is NZ\$5,000 and multiples thereafter are NZ\$1,000 as stated in the Application Form.

OPTION 1:

If you choose the direct debit option, you must tick the box authorising the Registrar to direct debit the bank account nominated on the Application Form on the day the Application Form is received by the Registrar for the amount applied

for on the Application Form. You cannot specify a direct debit date and you must ensure that:

- the bank account details supplied are correct;
- sufficient funds in the bank account for direct debit are available on the day the Registrar receives the Application Form;
- the person(s) giving the direct debit instruction has/have the authority to operate the account solely/jointly; and
- the bank account you nominated is a transactional account eligible for direct debit transactions. If you are uncertain, you should contact your bank or financial institution.

Should your direct debit fail, your application will be rejected.

If requested, a direct debit authority form will be provided to you by the Registrar. Refer to the contact details in section G of these instructions.

OPTION 2:

Cheques must be drawn on a New Zealand registered bank, from a New Zealand dollar bank account and must be made in New Zealand dollars. Cheques must be made payable to "IAG Bond Offer", crossed "Not Transferable" and must not be post-dated as cheques will be banked on day of receipt. If an applicant's cheque is dishonoured, IAG may cancel that applicant's allotment of the Bonds and pursue any other remedies available to it at law.

| Type of investor | Correct way to write name | Incorrect way to write name |
|---------------------------------------|--|-----------------------------------|
| Individual person | JOHN SMITH | J SMITH |
| More than one person | JOHN SMITH MICHELLE SMITH | J & M SMITH |
| Companies | ABC LIMITED | ABC |
| Trusts | JOHN SMITH (JOHN SMITH FAMILY TRUST A/C) | SMITH FAMILY TRUST |
| Partnerships | JOHN SMITH MICHAEL SMITH (JOHN SMITH AND SONS A/C) | JOHN SMITH & SONS |
| Clubs and unincorporated associations | JANE SMITH (SMITH INVESTMENT CLUB A/C) | SMITH INVESTMENT CLUB |
| Superannuation funds | JOHN SMITH LIMITED (SUPERANNUATION FUND A/C) | JOHN SMITH SUPERANNUATION FUND |

OPTION 3:

Investors who are members of NZClear System may, by prior arrangement with the Registrar, settle their applications for the Bonds on the Issue Date through the NZClear System.

FUTURE INTEREST PAYMENTS

All future interest payments will be made to the account specified on the Application Form. If you do not select the direct debit option (option 1), you must provide your bank account details so that IAG can direct credit your interest payments into your bank account. If you wish for your interest to be direct credited to a Cash Management Account, please complete the section in the Application Form provided for this account information.

C. HOLDER NUMBER DETAILS

If you have other investments registered under a Common Shareholder Number (CSN) you can supply your CSN in the space provided. The name and address details on your Application Form must correspond with the registration details under that CSN.

D. PROVIDE YOUR IRD NUMBER AND TICK THE RELEVANT RWT BOX

Please supply your IRD number. Resident Withholding Tax (**RWT**) will be deducted from any interest paid to you (unless you provide a valid RWT exemption certificate). Tick the RWT box that applies to you. If you are exempt from RWT, please tick the exempt box and attach a copy of your RWT exemption certificate.

E. ELECTRONIC INVESTOR CORRESPONDENCE

By supplying your email address, IAG will be able to deliver your investor correspondence, including your transaction statements, to you electronically where possible. This is a much more environmentally friendly, cost effective and timely option than paper-based investor mailing.

F. SIGNING AND DATING

Read the Investment Statement and Application Form carefully and sign and date the Application Form.

The Application Form must be signed by the applicant(s) personally, or by two directors of a company (or one director if there is only one director, whose signature must be witnessed), or in either case by a duly authorised attorney or agent.

If the Application Form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney on the reverse of the Application Form.

If the Application Form is signed by an agent, the agent must complete the certificate of agent on the reverse of the Application Form.

Joint applicants must each sign the Application Form.

G. CLOSING DATE AND DELIVERY

Applicants accepting a Firm Allocation from a Joint Lead Manager, Co-Manager, NZX Firm or approved financial intermediary must return a completed Application Form (with payment) to the office of that Joint Lead Manager, NZX Firm or financial intermediary in time to enable forwarding to the Registrar before 12:00 noon on the Closing Date (12 December 2011).

The Offer will close at 12:00 noon on 12 December 2011 (being the Closing Date). Applicants should remember that the Closing Date may be changed at the sole discretion of IAG. Changes will be advised by NZX announcement. IAG reserves the right to refuse to accept applications received by the Registrar after the Closing Date. Your Application Form should be delivered in accordance with the instructions contained in the Application Form.

Personal information rights

Personal information provided by you will be held by IAG and the Registrar at their respective addresses shown in the *Directory* on the inside back cover of this Investment Statement or at such other place as is notified upon request. This information will be used for the purpose of managing your investment. You have a right to access and correct any personal information about you under the Privacy Act 1993.

(ATTACH CHEQUE HERE)

Broker Stamp

INSURANCE AUSTRALIA GROUP LIMITED

Issue of unsecured subordinated bonds

Adviser Code

APPLICATION FORM

This Application Form is issued with the investment statement dated 4 November 2011 ("Investment Statement"), issued by Insurance Australia Group Limited. Please complete this Application Form and return it to, or lodge it with, an appropriate person as specified under the heading "Where to send your Application Form and payment" on page 35 of the Investment Statement.

Before completing this Application Form, applicants should read the Investment Statement to which this application relates

A. APPLICATION DETAILS AND INFORMATION—PLEASE PRINT IN BLOCK LETTERS

| | | | |
|----------------------------|--|--------------|--|
| First Name(s): | | Family Name: | |
| First Name(s): | | Family Name: | |
| First Name(s): | | Family Name: | |
| Corporate Name or Account: | | | |
| Postal Address: | | | |
| Daytime Phone Number: | | | |

B. APPLICATION PAYMENT—IMPORTANT

Applications must be accompanied by payment in full. Payment must be either by direct debit by completing the bank account section below, or by cheque payable to "IAG Bond Offer" and crossed "Not Transferable". Payment must be in New Zealand currency based on NZ\$1.00 per Bond. Your Application Form must be received by 12:00 noon on 12 December 2011 (**Closing Date**).

Applications must be for a minimum of NZ\$5,000 and, thereafter, in multiples of NZ\$1,000. IAG may accept or reject all or part of this application without giving reason.

| | |
|----------------------------------|------|
| Amount of the Bonds applied for: | NZ\$ |
|----------------------------------|------|

You may choose only ONE of the options below. Please tick the box next to your selected option (✓).

☐ **OPTION 1:** Please direct debit my bank account stated below for the amount of the Bonds applied for above (or any lesser amount as determined by IAG). By ticking this box and signing this Application Form, I/we agree that IAG or its agent is authorised to direct debit my/our account for the full amount of the Bonds applied for (or any lesser amount as determined by IAG). All future amounts paid by IAG will also be credited to this account unless the Registrar is advised otherwise in writing.

☐ **OPTION 2:** Please find attached my/our payment by cheque. I/we have supplied my/our bank account details below for the purpose of direct crediting of any future interest paid by IAG.

☐ **OPTION 3:** Payment will be made by the NZClear System as per prior arrangement with the Registrar (**authorised institutional investors only**).

| | | |
|-------------------|--|-------------------|
| NZClear Mnemonic: | | trade with CISL90 |
|-------------------|--|-------------------|

NEW ZEALAND DOLLAR BANK ACCOUNT DETAILS FOR DIRECT DEBIT PURPOSES AND/OR DIRECT CREDIT OF FUTURE INTEREST PAYMENTS:

| | | | |
|---|---|--|--|
| Name of Bank | | Name of Account | |
| <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | |
| Bank/Branch | Account No | Suffix | |

OR

For the purpose of interest payments only: direct credit to my Cash Management Account:

| | |
|--|--|
| Name of NZX member Firm where Cash Management Account is held: | |
|--|--|

| | |
|--|---|
| Cash Management Account Client Number: | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
|--|---|

C. COMMON SHAREHOLDER NUMBER (CSN)

Please note that the application must be in the same name as the CSN below, otherwise the application will be deemed to be made without a CSN and a base registry number will be allocated.

| | |
|---|---|
| If you currently have a CSN, please enter it here:: | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
|---|---|



D. IRD NUMBER AND RESIDENT WITHHOLDING TAX

IRD Number (only one IRD number is required in respect of joint applications): - -

Deduct Resident Withholding Tax from all my Early Bird Interest earned on my application money at the following rate (tick ☒ one).

☐ 10.5% ☐ 17.5% ☐ 28% (company rate) ☐ 30% ☐ 33% ☐ Exempt

(If you are exempt from Resident Withholding Tax, attach a copy of your RWT exemption certificate for noting).

Any person who is not resident in New Zealand for tax purposes should indicate that by checking the box below. Approved Issuer Levy will be deducted for interest paid to such persons unless they notify the Registrar that they wish to have Non-Resident Withholding Tax deducted.

☐ Non-Resident (please note that investors must be members of the public or institutions in New Zealand or investors in jurisdictions where the Bonds may be lawfully offered in compliance with all applicable laws and regulations)

E. ELECTRONIC CORRESPONDENCE AND REPORTING

To enable IAG to provide you with your investor correspondence in relation to your holding in these Bonds electronically, please complete your email address below. If you do not provide an email address, investor correspondence will be mailed to you at the address provided on this Application Form.

Email Address:

I wish to receive a copy of IAG's half-yearly and annual report: ☐ By email ☐ By post

F. SIGNATURE(S) OF APPLICANT(S)

I/We hereby acknowledge that I/we have received and read the Investment Statement, and apply for the New Zealand dollar amount of the Bonds set out above and agree to accept such Bonds (or such lesser number as may be allotted to me/us) on, and subject to, the terms and conditions set out in the Investment Statement. All applicants on this Application Form must sign.

Sign:
Date:

Sign:
Date:

Sign:
Date:

G. SEND APPLICATION FORM AND CHEQUE TO BE RECEIVED BY THE REGISTRAR
NO LATER THAN 12:00 NOON ON 12 DECEMBER 2011

H. CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY/AGENCY

(Complete this section if you are acting on behalf of the Applicant on this Application Form for whom you have power of attorney or are acting as agent on behalf of the applicant.)

I, _____ (full name)
of _____ (place and country of residence),
_____ (occupation), **CERTIFY:**
THAT by deed/agreement dated _____ (date of instrument creating the power of attorney/agency),
_____ (name of person/body corporate which granted the power of attorney/agency)
of _____
(place and country of residence of person/body corporate which granted the power of attorney / agency*)
appointed me _____ (his/her/its) attorney;
THAT I have executed the application for the Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and
THAT I have not received notice of any event revoking the power of attorney.
Signed at _____ (time) this _____ (date) _____ (month/year)

Signature of attorney _____

*If donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

TERMS AND CONDITIONS

By signing this Application Form:

- (a) I/we agree to subscribe for the Bonds upon and subject to the terms and conditions of the Investment Statement, the Prospectus, this Application Form and the Bond Trust Deed and I/we agree to be bound by the provisions thereof;
- (b) I/we confirm that I/we have received, read and understood the Investment Statement;
- (c) I/we declare that all details and statements made by me/us in this Application Form are complete and accurate;
- (d) I/we certify that, where information is provided by me/us in this Application Form about another person, I/we are authorised by such person to disclose the information to you and to give authorisation;
- (e) I/we acknowledge that an application cannot be withdrawn or revoked by the applicant once it has been submitted; and
- (f) I/we acknowledge that the Offer is only made in New Zealand and to investors in other jurisdictions where the Bonds may be lawfully offered, and by applying for the Bonds, I/we warrant that I/we received this offer in New Zealand and I/we are eligible to participate in the Offer or an investor in a jurisdiction where the Bonds may be lawfully offered in compliance with all applicable laws

and regulations, and I/we agree to indemnify IAG and its directors, officers, employees and agents in respect of any loss, cost, liability or expense sustained or incurred by IAG as a result of my/our breaching that warranty or the selling restrictions described in the Investment Statement.

Insurance Australia Group Limited reserves the right to decline any application, in whole or in part, without giving any reason and may decide not to accept any applications whatsoever.

Money received in respect of applications that are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be mailed to unsuccessful applicants within five Business Days of the allotment of the Bonds. Interest will not be paid on application money refunded to applicants.

Statements for the Bonds will be dispatched to successful applicants as soon as practicable after allotment, but in any event within five Business Days of the Issue Date.

Applications must conform with the application instructions in the section of the Investment Statement entitled *How much do I pay?* and *Application instructions*.

A joint application must be signed by all applicants. Only the address of the first named of the joint applicants will be

recorded on the Register and all interest payments, notices, and other correspondence will be sent to that address.

Applications lodged by individuals must be signed personally or by their attorney or agent. If this Application Form is signed by an attorney, the attorney must complete the certificate of non-revocation of power of attorney set out in the Application Form. If this Application Form is signed by an agent, the agent must complete the certificate of agent set out in the Application Form.

Terms defined in the Investment Statement have the same meaning in this Application Form.

This Application Form, the Offer and any contract arising out of its acceptance are each governed by New Zealand law. Under the Financial Transactions Reporting Act 1996, investors could be required to produce evidence of their identity.

The information in this Application Form is provided to enable IAG and the Registrar to process your application, and to administer your investment. By signing this Application Form, you authorise IAG and the Registrar to disclose information in situations where IAG or the Registrar are required or permitted to do so by any applicable law or by a governmental, judicial or regulatory entity or authority in any jurisdiction. If you are an individual under the Privacy Act 1993, you have the right to access and correct any of your personal information.

(ATTACH CHEQUE HERE)

Broker Stamp

INSURANCE AUSTRALIA GROUP LIMITED

Issue of unsecured subordinated bonds

Adviser Code

APPLICATION FORM

This Application Form is issued with the investment statement dated 4 November 2011 ("Investment Statement"), issued by Insurance Australia Group Limited. Please complete this Application Form and return it to, or lodge it with, an appropriate person as specified under the heading "Where to send your Application Form and payment" on page 35 of the Investment Statement.

Before completing this Application Form, applicants should read the Investment Statement to which this application relates

A. APPLICATION DETAILS AND INFORMATION—PLEASE PRINT IN BLOCK LETTERS

| | | | |
|----------------------------|--|--------------|--|
| First Name(s): | | Family Name: | |
| First Name(s): | | Family Name: | |
| First Name(s): | | Family Name: | |
| Corporate Name or Account: | | | |
| Postal Address: | | | |
| Daytime Phone Number: | | | |

B. APPLICATION PAYMENT—IMPORTANT

Applications must be accompanied by payment in full. Payment must be either by direct debit by completing the bank account section below, or by cheque payable to "IAG Bond Offer" and crossed "Not Transferable". Payment must be in New Zealand currency based on NZ\$1.00 per Bond. Your Application Form must be received by 12:00 noon on 12 December 2011 (**Closing Date**).

Applications must be for a minimum of NZ\$5,000 and, thereafter, in multiples of NZ\$1,000. IAG may accept or reject all or part of this application without giving reason.

| | |
|----------------------------------|------|
| Amount of the Bonds applied for: | NZ\$ |
|----------------------------------|------|

You may choose only ONE of the options below. Please tick the box next to your selected option (✓).

- ☐ **OPTION 1:** Please direct debit my bank account stated below for the amount of the Bonds applied for above (or any lesser amount as determined by IAG). By ticking this box and signing this Application Form, I/we agree that IAG or its agent is authorised to direct debit my/our account for the full amount of the Bonds applied for (or any lesser amount as determined by IAG). All future amounts paid by IAG will also be credited to this account unless the Registrar is advised otherwise in writing.
- ☐ **OPTION 2:** Please find attached my/our payment by cheque. I/we have supplied my/our bank account details below for the purpose of direct crediting of any future interest paid by IAG.
- ☐ **OPTION 3:** Payment will be made by the NZClear System as per prior arrangement with the Registrar (**authorised institutional investors only**).

| | | |
|-------------------|--|-------------------|
| NZClear Mnemonic: | | trade with CISL90 |
|-------------------|--|-------------------|

NEW ZEALAND DOLLAR BANK ACCOUNT DETAILS FOR DIRECT DEBIT PURPOSES AND/OR DIRECT CREDIT OF FUTURE INTEREST PAYMENTS:

| | | | |
|--------------|--|-----------------|--|
| Name of Bank | | Name of Account | |
|--------------|--|-----------------|--|

| | | |
|---|---|---|
| <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| Bank/Branch | Account No | Suffix |

OR

For the purpose of interest payments only: direct credit to my Cash Management Account:

| | |
|--|--|
| Name of NZX member Firm where Cash Management Account is held: | |
|--|--|

| | |
|--|---|
| Cash Management Account Client Number: | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
|--|---|

C. COMMON SHAREHOLDER NUMBER (CSN)

Please note that the application must be in the same name as the CSN below, otherwise the application will be deemed to be made without a CSN and a base registry number will be allocated.

| | |
|---|---|
| If you currently have a CSN, please enter it here:: | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
|---|---|



D. IRD NUMBER AND RESIDENT WITHHOLDING TAX

IRD Number (only one IRD number is required in respect of joint applications): - -

Deduct Resident Withholding Tax from all my Early Bird Interest earned on my application money at the following rate (tick ☒ one).

☐ 10.5% ☐ 17.5% ☐ 28% (company rate) ☐ 30% ☐ 33% ☐ Exempt

(If you are exempt from Resident Withholding Tax, attach a copy of your RWT exemption certificate for noting).

Any person who is not resident in New Zealand for tax purposes should indicate that by checking the box below. Approved Issuer Levy will be deducted for interest paid to such persons unless they notify the Registrar that they wish to have Non-Resident Withholding Tax deducted.

☐ Non-Resident (please note that investors must be members of the public or institutions in New Zealand or investors in jurisdictions where the Bonds may be lawfully offered in compliance with all applicable laws and regulations)

E. ELECTRONIC CORRESPONDENCE AND REPORTING

To enable IAG to provide you with your investor correspondence in relation to your holding in these Bonds electronically, please complete your email address below. If you do not provide an email address, investor correspondence will be mailed to you at the address provided on this Application Form.

Email Address:

I wish to receive a copy of IAG's half-yearly and annual report: ☐ By email ☐ By post

F. SIGNATURE(S) OF APPLICANT(S)

I/We hereby acknowledge that I/we have received and read the Investment Statement, and apply for the New Zealand dollar amount of the Bonds set out above and agree to accept such Bonds (or such lesser number as may be allotted to me/us) on, and subject to, the terms and conditions set out in the Investment Statement. All applicants on this Application Form must sign.

Sign:
Date:

Sign:
Date:

Sign:
Date:

G. SEND APPLICATION FORM AND CHEQUE TO BE RECEIVED BY THE REGISTRAR
NO LATER THAN 12:00 NOON ON 12 DECEMBER 2011

H. CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY/AGENCY

(Complete this section if you are acting on behalf of the Applicant on this Application Form for whom you have power of attorney or are acting as agent on behalf of the applicant.)

I, _____ (full name)
of _____ (place and country of residence),
_____ (occupation), **CERTIFY:**
THAT by deed/agreement dated _____ (date of instrument creating the power of attorney/agency),
_____ (name of person/body corporate which granted the power of attorney/agency)
of _____
(place and country of residence of person/body corporate which granted the power of attorney / agency*)
appointed me _____ (his/her/its) attorney;
THAT I have executed the application for the Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and
THAT I have not received notice of any event revoking the power of attorney.
Signed at _____ (time) this _____ (date) _____ (month/year)

Signature of attorney _____

*If donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

TERMS AND CONDITIONS

By signing this Application Form:

- (a) I/we agree to subscribe for the Bonds upon and subject to the terms and conditions of the Investment Statement, the Prospectus, this Application Form and the Bond Trust Deed and I/we agree to be bound by the provisions thereof;
- (b) I/we confirm that I/we have received, read and understood the Investment Statement;
- (c) I/we declare that all details and statements made by me/us in this Application Form are complete and accurate;
- (d) I/we certify that, where information is provided by me/us in this Application Form about another person, I/we are authorised by such person to disclose the information to you and to give authorisation;
- (e) I/we acknowledge that an application cannot be withdrawn or revoked by the applicant once it has been submitted; and
- (f) I/we acknowledge that the Offer is only made in New Zealand and to investors in other jurisdictions where the Bonds may be lawfully offered, and by applying for the Bonds, I/we warrant that I/we received this offer in New Zealand and I/we are eligible to participate in the Offer or an investor in a jurisdiction where the Bonds may be lawfully offered in compliance with all applicable laws

and regulations, and I/we agree to indemnify IAG and its directors, officers, employees and agents in respect of any loss, cost, liability or expense sustained or incurred by IAG as a result of my/our breaching that warranty or the selling restrictions described in the Investment Statement.

Insurance Australia Group Limited reserves the right to decline any application, in whole or in part, without giving any reason and may decide not to accept any applications whatsoever.

Money received in respect of applications that are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be mailed to unsuccessful applicants within five Business Days of the allotment of the Bonds. Interest will not be paid on application money refunded to applicants.

Statements for the Bonds will be dispatched to successful applicants as soon as practicable after allotment, but in any event within five Business Days of the Issue Date.

Applications must conform with the application instructions in the section of the Investment Statement entitled *How much do I pay?* and *Application instructions*.

A joint application must be signed by all applicants. Only the address of the first named of the joint applicants will be

recorded on the Register and all interest payments, notices, and other correspondence will be sent to that address.

Applications lodged by individuals must be signed personally or by their attorney or agent. If this Application Form is signed by an attorney, the attorney must complete the certificate of non-revocation of power of attorney set out in the Application Form. If this Application Form is signed by an agent, the agent must complete the certificate of agent set out in the Application Form.

Terms defined in the Investment Statement have the same meaning in this Application Form.

This Application Form, the Offer and any contract arising out of its acceptance are each governed by New Zealand law. Under the Financial Transactions Reporting Act 1996, investors could be required to produce evidence of their identity.

The information in this Application Form is provided to enable IAG and the Registrar to process your application, and to administer your investment. By signing this Application Form, you authorise IAG and the Registrar to disclose information in situations where IAG or the Registrar are required or permitted to do so by any applicable law or by a governmental, judicial or regulatory entity or authority in any jurisdiction. If you are an individual under the Privacy Act 1993, you have the right to access and correct any of your personal information.

DIRECTORY

ISSUER

Insurance Australia Group Limited

Level 26
388 George Street
Sydney NSW 2000
Australia

Telephone: +61 2 9292 8448
Facsimile: +61 2 9292 8072
Email: companysecretary@iag.com.au

REGISTRAR

Computershare Investor Services Limited

Level 2
159 Hurstmere Road
Takapuna
Auckland 0622
Private Bag 92119
Auckland 1142
New Zealand

Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787
Email: enquiry@computershare.co.nz

AUDITOR

KPMG Australia

10 Shelly Street
Sydney NSW 2000
Australia

TRUSTEE

The New Zealand Guardian Trust Company Limited

NZ Guardian Trust
Level 7
48 Shortland Street
Auckland 1010
New Zealand

Telephone: +64 9 377 7300
Freephone: 0800 801 135
Email: web.corporatetrusts@nzgt.co.nz

JOINT LEAD ARRANGERS

ANZ National Bank Limited

Level 7
1 Victoria Street
Wellington 6012
New Zealand

Freephone: 0800 269 476
www.anz.co.nz/ipo

UBS New Zealand Limited

Level 17
PwC Tower
188 Quay Street
Auckland 1010
New Zealand

Freephone: 0800 200 221
www.ubs.com

JOINT LEAD MANAGERS

ANZ National Bank Limited

Level 7
1 Victoria Street
Wellington 6012
New Zealand

Freephone: 0800 269 476
www.anz.co.nz/ipo

Bank of New Zealand

Deloitte Centre
Level 6
80 Queen Street
Auckland 1142
New Zealand

Telephone: +64 9 375 1391
Freephone: 0800 284 017

Craigs Investment Partners Limited

Craigs Investment Partners House
158 Cameron Road
PO Box 13 155
Tauranga 3141
New Zealand

Freephone: 0800 226 263
www.craigsip.com

Forsyth Barr Limited

Level 9
Forsyth Barr House
The Octagon
Dunedin 9054
New Zealand

Freephone: 0800 367 227
www.forsythbarr.co.nz

UBS New Zealand Limited

Level 17
PwC Tower
188 Quay Street
Auckland 1010
New Zealand

Freephone: 0800 200 221
www.ubs.com

CO-MANAGERS

Macquarie Securities (NZ) Limited

Level 17
Lumley Centre
88 Shortland St
PO Box 2006
Auckland 1140
New Zealand

Freephone: 0800 742 737
www.macquarie.co.nz

Westpac Banking Corporation, New Zealand Branch

Level 8
16 Takutai Square
PO Box 934
Auckland 1140
New Zealand

Freephone: 0800 601 901

NEW ZEALAND LEGAL ADVISER TO IAG

Chapman Tripp

Level 38
ANZ Centre
23 Albert Street
Auckland 1140
New Zealand

AUSTRALIAN LEGAL ADVISER TO IAG

Mallesons Stephen Jaques

Level 61
Governor Phillip Tower
1 Farrer Place
NSW 2000
Australia

