

# 1

## ANSWERS TO KEY QUESTIONS

**This Section answers some key questions you may have about the proposed Amendments:**

1.1	Rationale for, and general implications of, the Amendments	9
1.2	Description of the Amendments	11
1.3	Interest Payments and Dividends	12
1.4	The Portfolio	16
1.5	Ranking	16
1.6	Reset	17
1.7	Exchange	18
1.8	Your rights to request Redemption or Conversion	19
1.9	The Issuer's and IAG's right to initiate Redemption, Conversion or Resale	20
1.10	Conversion	21
1.11	Redemption	22
1.12	Resale	22
1.13	Amendment process	22
1.14	Meeting details	23
1.15	Additional questions	24

**THE ANSWERS TO THESE KEY QUESTIONS ARE INTENDED AS A GUIDE ONLY. YOU SHOULD READ THE AMENDED RES TERMS SET OUT IN APPENDIX B AND THE AMENDED PREFERENCE SHARE TERMS SET OUT IN APPENDIX C.**

You should read this entire Explanatory Statement to understand the impact the proposed Amendments will have on your holding in the Existing RES or Existing Preference Shares (if issued). If, after reading this Explanatory Statement, you are still unsure whether, or how, to vote on the proposed Amendments, you should consult your accountant, stockbroker, lawyer or other professional adviser.

**1.1 RATIONALE FOR, AND GENERAL IMPLICATIONS OF, THE AMENDMENTS**

**1.1.1 Why is the Issuer proposing the Amendments?**

The Issuer is proposing the Amendments to the Existing RES Terms and Existing Preference Share Terms so that it is able to retain this funding and continue to provide funding for the Group's New Zealand businesses. Additionally, the proposed Amendments will ensure the Amended RES qualify for Innovative Tier 1 Capital for regulatory purposes and provide equity content for rating purposes.

The Amended RES will pay a higher rate of return to you than the Existing RES. The Issuer is also proposing other changes to the Existing RES Terms and Existing Preference Share Terms to bring the terms into line with current market practice for Tier 1 Capital instruments of this kind.

The funds currently invested in the Portfolio will be made available to the Group to be invested in accordance with the Group's investment mandates.

The proceeds of the Amended RES will be fully and immediately invested, and will remain invested, in an instrument of the Group's New Zealand business on terms and conditions which substantially mirror those of the Amended RES.

**1.1.2 What are the implications for you if the proposed Amendments are approved?**

If the proposed Amendments are approved, you will continue to hold your Existing RES but they will be governed by the Amended RES Terms from the Amendment Date and, if the Amended Preference Shares are issued upon an Exchange, they will be governed by the Amended Preference Share Terms. If the proposed Amendments are approved by the Special Resolution, they are binding on all RES Holders.

The rate payable on the Amended RES and the Amended Preference Shares (if issued) is the Bank Bill Rate plus a RES Margin until the first Reset Date of 4.00% per annum (including franking credits).

If the proposed Amendments are approved, the Amended RES will no longer be secured by, or subject to, the Portfolio, which secures the Existing RES.

A summary comparison of the proposed Amendments is set out from page 4 to page 7. The Amended RES Terms, showing all changes compared to the Existing RES Terms, are set out in full in Appendix B and the Amended Preference Share Terms, showing all changes compared to the Existing Preference Share Terms, are set out in full in Appendix C.

The proposed Amendments may be advantageous or disadvantageous to you, depending on your personal circumstances. In particular, it is important that you consider the risk factors that could affect the financial performance of the Group and the potential risks associated with holding the Amended RES – see Section 4 for investment risks you should consider. You should carefully consider these risk factors in light of your particular investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding on whether, or how, to vote on the proposed Amendments.

**1.1.3 What are the implications for you if the proposed Amendments are not approved?**

If the proposed Amendments are not approved, then IAG will exercise its right under the Existing RES Terms to Exchange the Existing RES into Existing Preference Shares governed by the Existing Preference Share Terms by 15 March 2010. The Issuer will not Redeem or Convert the Existing RES on 15 March 2010 under the Existing RES Terms.

If you are a RES Holder when Exchange occurs, you will receive one Existing Preference Share for each Existing RES you hold. The Existing Preference Shares are expected to continue trading on ASX.

The Preference Share Margin on the Existing Preference Shares will be 1.20% per annum (the same as the RES Margin that applies under the Existing RES). In contrast, the RES Margin on the Amended RES will be 4.00% per annum until the first Reset Date. The Amended RES will also give you certain rights to request Conversion, including on the Reset Date, which are not available under the Existing Preference Share Terms.

# 1 ANSWERS TO KEY QUESTIONS

## 1.1.3 What are the implications for you if the proposed Amendments are not approved? (continued)

The Directors consider that, on balance, it is in the best interests of RES Holders to approve the proposed Amendments. If the proposed Amendments are not approved IAG will exercise its right under the Existing RES Terms to Exchange the Existing RES into Existing Preference Shares by 15 March 2010. The Directors consider that the RES Holders will be better off holding the Amended RES rather than holding the Existing Preference Shares. The Directors' view is supported by the findings of the Independent Expert who has concluded that, in its opinion, having regard to the advantages, disadvantages and other considerations of the proposed Amendments, as well as the implications if the Amendments are not approved, the proposed Amendments are in the best interests of RES Holders.

The proposed Amendments may be advantageous or disadvantageous to you, depending on your personal circumstances. In particular, it is important that you consider the risk factors that could affect the financial performance of the Group and the potential risks associated with holding the Amended RES – see Section 4 for investment risks you should consider. You should carefully consider these factors in light of your particular investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding on whether, or how, to vote on the proposed Amendments.

## 1.1.4 What are the regulatory capital and credit rating implications for the Issuer and IAG if the proposed Amendments are approved?

If the proposed Amendments are approved, the Amended RES and Amended Preference Shares (if issued) will qualify as Innovative Tier 1 Capital for regulatory purposes and S&P will classify the Amended RES as hybrid capital having intermediate equity content for the Group's rating purposes.

The Amended RES will strengthen the Group's regulatory capital position, with its minimum capital requirement (**MCR**) multiple increasing from 1.79 at 30 June 2009 to 2.03 on a pro forma basis. Accordingly, the Group will benefit from the approval of the proposed Amendments.

Even though the Amended RES will qualify as Innovative Tier 1 Capital, not all of the Amended RES will count towards the Group's Innovative Tier 1 Capital on the Amendment Date due to the current limit on the Group's Innovative Tier 1 Capital capacity. The surplus portion of the Amended RES will initially count towards the Group's Upper Tier 2 Capital and will be treated as Innovative Tier 1 Capital when there is additional capacity.

## 1.1.5 What are the regulatory capital and credit rating implications for the Issuer and IAG if the proposed Amendments are not approved?

If the proposed Amendments are not approved, then IAG will exercise its right under the Existing RES Terms to Exchange the Existing RES into Existing Preference Shares by 15 March 2010.

The Existing Preference Shares will qualify as Innovative Tier 1 Capital for regulatory purposes and S&P will classify the Existing Preference Shares as hybrid capital having intermediate equity content for the Group's rating purposes.

If the Existing Preference Shares are issued, the Group's regulatory capital position will strengthen, with its MCR multiple increasing from 1.79 at 30 June 2009 to 2.03 on a pro forma basis.

Even though the Existing Preference Shares will qualify as Innovative Tier 1 Capital, not all of the Existing Preference Shares will count towards the Group's Innovative Tier 1 Capital following Exchange due to the current limit on the Group's Innovative Tier 1 Capital capacity. The surplus portion of the Existing Preference Shares will initially count towards the Group's Upper Tier 2 Capital and will be treated as Innovative Tier 1 Capital when there is additional capacity.

## 1.1.6 Do RES Holders need to pay anything further for their Existing RES to be governed by the Amended RES Terms?

No. If the Amendments are approved, Existing RES will be governed by the Amended RES Terms without any further action on RES Holders' part. RES Holders do not need to pay anything further.

## 1.1.7 Will the Amended RES be a new security, or the same security as the Existing RES?

The Amendment process does not involve the cancellation of the Existing RES or the issuance of the Amended RES in replacement.

The security will remain outstanding at all times and be amended under the amendment powers in the Existing RES Terms and the Trust Deed.

## 1.1.8 What is the Independent Expert's conclusion?

The Independent Expert has concluded that, in its opinion, having regard to the advantages, disadvantages and other considerations of the proposed Amendments, as well as the implications if the Amendments are not approved the proposed Amendments are in the best interests of RES Holders.

You should read the Independent Expert's report in full, which is in Section 6 of this Explanatory Statement.

**1.1.9 What do the Directors recommend RES Holders do?**

The Directors consider that, on balance, it is in the best interests of RES Holders to approve the proposed Amendments.

If the proposed Amendments are not approved IAG will exercise its right under the Existing RES Terms to Exchange the Existing RES into Existing Preference Shares by 15 March 2010. The Directors consider that the RES Holders will be better off holding the Amended RES rather than holding the Existing Preference Shares. The Directors' view is supported by the findings of the Independent Expert who has concluded that, in its opinion, having regard to the advantages, disadvantages and other considerations of the proposed Amendments, as well as the implications if the Amendments are not approved, the proposed Amendments are in the best interests of RES Holders.

**1.2 DESCRIPTION OF THE AMENDMENTS**

**1.2.1 What are the proposed Amendments?**

The proposed Amendments will change the Existing RES Terms and the Existing Preference Share Terms, as described in this Explanatory Statement.

**Key Amendments**

The key Amendments include an increase in the RES Margin from 1.20% to 4.00% until the first Reset Date and changes to the Existing RES Terms to comply with APRA's requirements for Innovative Tier 1 Capital instruments. These changes include:

- removing the Portfolio so that the Amended RES will not be secured by, or subject to, the Portfolio and to allow the Group immediate use of the funds currently invested in the Portfolio;
- expressing the Amended RES to be subordinated, rather than unsubordinated, obligations of the Issuer;
- changing the tests which determine whether an Interest Payment may be made;
- changing the circumstances in which IAG may, and in some cases, must, Exchange the Amended RES for the Amended Preference Shares;
- removing RES Holders' right to request Redemption of the Amended RES where a Trigger Event occurs; and
- giving RES Holders a right to request Conversion of the Amended RES upon a Reset Date or following an Acquisition Event. The Issuer may Redeem (subject to APRA's prior written approval) or Convert or Resell the Amended RES in response to the request.

Corresponding and consequential changes, where appropriate, are also proposed for the Existing Preference Share Terms.

**Other Amendments**

The Issuer is also proposing other changes to the Existing RES Terms and Existing Preference Share Terms to align the terms with current market practice for Innovative Tier 1 Capital instruments of this kind, including:

- introducing a more developed Resale feature to allow the Issuer to arrange for the sale of your Amended RES to a third party as an alternative in situations where the Issuer may or must Redeem or Convert the Amended RES (a corresponding feature has been introduced into the Amended Preference Share Terms);
- allowing any IAG Entity to purchase some or all Amended RES on the open market, which can then be cancelled or resold at the option of the Issuer;
- adding to the Issuer's and IAG's rights to initiate Redemption, Conversion or Resale, by giving these rights upon a Potential Acquisition Event occurring as well as upon an Acquisition Event occurring. A Potential Acquisition Event will occur at an earlier point in any acquisition process. The definition of Regulatory Event is to be amended having regard to how the Amended RES will be treated by the Group as regulatory capital. See Section 1.9.1;
- making changes to certain exceptions to the Issuer's obligation to gross up for certain taxes. See Section 1.3.11;
- including provisions which give more flexibility to the Issuer and IAG as to the dates on which Conversion, Redemption and Resale can occur and on which notices may be given; and

# 1 ANSWERS TO KEY QUESTIONS

<p><b>1.2.1 What are the proposed Amendments? (continued)</b></p>	<ul style="list-style-type: none"> <li>in the Amended Preference Share Terms, removing the obligations of the IAG Directors to take reasonable endeavours to procure a take over offer for Preference Shareholders (see clause 4.8 of the Existing Preference Share Terms) because Preference Shareholders will now have a right to request Conversion following an Acquisition Event.</li> </ul> <p>In addition, the Issuer is proposing changes to the Existing Preference Share Terms so that they correspond substantially with the Amended RES Terms.</p> <p>The Amended RES Terms, showing all changes compared to the Existing RES Terms, are set out in full in Appendix B and the Amended Preference Share Terms, showing all changes compared to the Existing Preference Share Terms, are set out in full in Appendix C.</p>
<p><b>1.2.2 What is Innovative Tier 1 Capital?</b></p>	<p>If the Amendments are approved, the Amended RES will qualify as Innovative Tier 1 Capital for regulatory purposes on a Level 2 basis. The Existing RES do not qualify as Innovative Tier 1 Capital (or indeed, as any form of regulatory capital).</p> <p>Groups containing an authorised general insurer (such as the Group) must hold a minimum amount of regulatory capital for each general insurer (Level 1 basis) and for the consolidated general insurer group (Level 2 basis). APRA has issued prudential standards outlining the types of capital that are acceptable for capital adequacy purposes.</p> <p>On a Level 2 basis means that the capital is recognised as capital for a group that includes a general insurer (and not the general insurer itself). The Issuer is a member of the group of companies constituting a Level 2 insurance group in which IAG is the authorised non-operating holding company.</p> <p>Innovative Tier 1 Capital is a form of Tier 1 Capital recognised by APRA for the purposes of these prudential standards.</p> <p>Tier 1 Capital comprises the highest quality of components of capital and has the following essential characteristics:</p> <ul style="list-style-type: none"> <li>provides a permanent and unrestricted commitment of funds;</li> <li>is freely available to absorb losses;</li> <li>does not impose any unavoidable servicing charge against earnings; and</li> <li>ranks behind the claims of policyholders and creditors in the event of a winding-up.</li> </ul> <p>Tier 1 Capital is comprised of Fundamental Tier 1 Capital (such as paid-up ordinary shares) and Residual Tier 1 Capital. Residual Tier 1 Capital is divided into Non-Innovative Residual Tier 1 Capital (comprising perpetual, non-cumulative Preference Shares that meet APRA's requirements) and Innovative Tier 1 Capital (certain other non-cumulative, perpetual instruments).</p> <p>Under APRA's prudential standards, Innovative Tier 1 Capital is limited to 15% of Net Tier 1 Capital.</p> <p>To the extent the total of the Group's hybrid capital (including the Amended RES) exceeds this limit, the Amended RES will qualify as Upper Tier 2 Capital. This classification does not affect the RES Holders' right to payment in respect of Amended RES.</p>
<p><b>1.3 INTEREST PAYMENTS AND DIVIDENDS</b></p>	
<p><b>1.3.1 How will the proposed Amendments affect Interest Payments and Dividends?</b></p>	<p>Generally, Interest Payments on the Amended RES and Dividends on the Amended Preference Shares (if issued) will benefit from a higher margin and Interest Payments will be subject to a different reset mechanism than under the Existing RES Terms. The Preference Share Margin will be subject to a reset mechanism rather than a step-up mechanism, as applies in the Existing Preference Share Terms. The Interest Payment Tests and Dividend Payment Tests will also change to meet APRA's current guidelines for Innovative Tier 1 Capital instruments. In addition, as the Portfolio will not be a feature of the Amended RES, each Interest Payment will no longer be subject to the Distributable Portfolio Income Amount.</p>
<p><b>1.3.2 What will be the RES Margin on the Amended RES after the Amendments?</b></p>	<p>The proposed Amendments include an increase to the RES Margin from 1.20% per annum to 4.00% per annum, which will take effect from, and including, the Amendment Date. If issued prior to the first Reset Date, the Amended Preference Shares will also benefit from this increased RES Margin as they will initially bear Dividends at the RES Margin which applies at the time of Exchange. Upon the Reset Date, the RES Margin could be reset by the Issuer, as described below.</p>

<p><b>1.3.3 How will the first Interest Payment on the Amended RES be calculated?</b></p>	<p>If the proposed Amendments are approved, the new RES Margin will take effect from and including the Amendment Date. All Interest Payments after the Amendment Date will be paid according to the Amended RES Terms.</p> <p>The Interest Payment on 15 December 2009 will be the amount announced by the Issuer on 15 September 2009 under the Existing RES Terms.</p>
<p><b>1.3.4 How will the Interest Payment Tests change?</b></p>	<p>Currently, each Interest Payment on the Existing RES is subject to:</p> <ul style="list-style-type: none"> <li>• the Distributable Portfolio Income Amount; and</li> <li>• either (or both) of the following being satisfied: <ul style="list-style-type: none"> <li>– there being distributable profits in IAG in an amount equal to or greater than the aggregate Interest Payment due on all Existing RES; or</li> <li>– IAG has paid a dividend on any class of its capital in the period of 12 months before the relevant Interest Payment Date.</li> </ul> </li> </ul> <p>To allow the Amended RES to qualify as Innovative Tier 1 Capital, these tests will change so that each Interest Payment on the Amended RES will be subject to:</p> <ul style="list-style-type: none"> <li>• the Directors not having passed a resolution (which they may pass in their absolute discretion) not to pay the Interest Payment on the relevant Interest Payment Date; and</li> <li>• no APRA Condition existing in respect of the relevant Interest Payment Date (see Section 1.3.6 for further details on the APRA Conditions).</li> </ul> <p>These tests will also apply to any Optional Interest Payment that the Issuer may pay to lift the distribution restrictions.</p>
<p><b>1.3.5 How will the Dividend Payment Tests change?</b></p>	<p>Under the Existing Preference Share Terms, each Dividend on the Existing Preference Shares is subject to:</p> <ul style="list-style-type: none"> <li>• the IAG Directors determining a Dividend to be payable;</li> <li>• IAG having profits available to pay the Dividend;</li> <li>• IAG being able to pay the Dividend without IAG and its controlled entities (on a consolidated basis) breaching APRA's current capital adequacy guidelines;</li> <li>• the Distributable Profits Test being satisfied; and</li> <li>• APRA not otherwise objecting to the payment of the Dividend.</li> </ul> <p>To meet APRA's current requirements for Innovative Tier 1 Capital instruments as APRA applies them to the Group, these tests will change so that each Dividend on the Amended Preference Share will be subject to:</p> <ul style="list-style-type: none"> <li>• the IAG Directors determining a Dividend to be payable; and</li> <li>• no APRA Conditions existing in respect of the relevant Dividend Payment Date.</li> </ul> <p>These tests will also apply to any Optional Dividend that IAG may pay to lift the distribution restrictions.</p>
<p><b>1.3.6 What are the APRA Conditions?</b></p>	<p>For both the Amended RES and the Amended Preference Shares, the APRA Conditions are:</p> <ul style="list-style-type: none"> <li>• unless APRA otherwise approves in writing: <ul style="list-style-type: none"> <li>– making the Interest Payment/Dividend (as applicable) on the payment date would result in the MCR of the Group on a Level 2 basis not complying with APRA's then current capital adequacy standards as they are applied to the Group on a Level 2 basis at the time; or</li> <li>– the Interest Payment/Dividend (as applicable) on the payment date would exceed Distributable Profits as at the Record Date for the Interest Payment/Dividend (as applicable);</li> </ul> </li> <li>• paying the Interest Payment/Dividend (as applicable) would result in IAG (or the Issuer, for an Interest Payment only) becoming insolvent or becoming likely to become insolvent for the purposes of the Corporations Act; or</li> <li>• APRA objecting to the Interest Payment/Dividend (as applicable) being paid.</li> </ul>

# 1 ANSWERS TO KEY QUESTIONS

## 1.3.7 What happens if the Issuer does not pay an Interest Payment?

Under the Existing RES Terms, if the Issuer fails to pay an Interest Payment in full for any reason (except because of the Interest Payment Tests) within 20 Business Days of the relevant Interest Payment Date, then a Trigger Event occurs and RES Holders have the right to request Redemption of some or all of their Existing RES. There are also remedies under the Trust Deed, such as the enforcement of the security over the Portfolio, for the non-payment of amounts owing in respect of the Existing RES.

If the Interest Payment is not paid in full due to the Interest Payment Tests not being met (other than due to the Distributable Portfolio Income Amount), then the distribution restrictions apply. However, if the Portfolio has an insufficient Distributable Portfolio Income Amount, the Issuer has no obligation to pay the full Interest Payment and distribution restrictions will not apply.

Under the Amended RES Terms, if the Issuer does not pay an Interest Payment either because the Interest Payment Tests were failed or otherwise, then the Issuer has no liability to pay the unpaid amount of the Interest Payment, RES Holders have no claim in respect of such non-payment, such non-payment does not constitute an event of default and RES Holders have no right to initiate a winding-up of, an administration in respect of, or the appointment of a receiver or a receiver and manager to, the Issuer for such non-payment. However, if the Interest Payment is not paid for any reason, then the distribution restrictions apply. The proposed Amendments do not substantially amend these distribution restrictions.

In addition, under the Amended RES Terms, IAG must Exchange the Amended RES for Amended Preference Shares if an Interest Payment is not paid in full within 40 Business Days of the scheduled Interest Payment Date for any reason other than due to an APRA Condition existing on the relevant Interest Payment Date.

## 1.3.8 What are the distribution restrictions?

Under both the Amended RES Terms and Amended Preference Share Terms the distribution restrictions are substantially the same. In each case if an Interest Payment or Dividend is not paid, IAG must not, without approval of a Special Resolution:

- declare or pay a dividend or make any distribution on any capital over which Amended Preference Shares would, if issued, rank in priority for participation in profits; or
- redeem, reduce, cancel or acquire for any consideration any capital of IAG other than capital ranking equally with or in priority to Amended Preference Shares if Amended Preference Shares were issued,

unless:

- four consecutive Interest Payments/Dividends (as applicable) stated to be payable on the Amended RES/Amended Preference Shares (as applicable) after the Interest Payment Date/Dividend Payment Date (as applicable) of the Interest Payment/Dividend (as applicable) that has not been paid have been paid in full; or
- with the prior written approval of APRA, an Optional Interest Payment/Optional Dividend (as applicable) has been paid to all RES Holders/Preference Shareholders (as applicable) equal to the aggregate unpaid amount of any unpaid Interest Payments/Dividends (as applicable) which were scheduled to be paid in the 12 months prior to the date of payment of the Optional Interest Payment/Optional Dividend (as applicable); or
- all Amended RES/Amended Preference Shares (as applicable) have been Redeemed or Converted.

If a distribution restriction applies under the Amended RES Terms and the Amended RES are Exchanged for Amended Preference Shares, the distribution restriction continues to apply under the Amended Preference Share Terms until lifted in accordance with the Amended Preference Share Terms.

This distribution restriction is not substantially different to that which currently applies under both the Existing RES Terms and Existing Preference Share Terms.

**1.3.9 How could the RES Margin on the Amended RES or the Preference Share Margin on the Amended Preference Shares be reset?**

The RES Margin on the Amended RES after the Reset Date will be determined by the Issuer, provided that it does not exceed the lesser of:

- the RES Margin that applies on the previous Reset Date plus 2.00% per annum;
- 6.00% per annum; and
- $4.00\% \times (FR - FRG) / (FP - FPG)$

where:

**FR** is the Fair Market Yield for “A” rated seven year AUD corporate securities on the Business Day immediately prior to the day on which the Reset Notice is despatched;

**FP** is the Fair Market Yield for “A” rated seven year AUD corporate securities on the Amendment Date;

**FRG** is the Fair Market Yield for Australian Government seven year AUD securities on the Business Day immediately prior to the day on which the Reset Notice is despatched; and

**FPG** is the Fair Market Yield for Australian Government seven year AUD securities on the Amendment Date.

**Fair Market Yield** means:

- the yield applicable to a security of the relevant class of issuer, rating (if applicable) and tenor (the “relevant security”) as displayed on Bloomberg page FMC (or any successor page); or
- if that yield is not available at that time, the yield in respect of the relevant security determined by the Issuer in its absolute discretion as the arithmetic mean of the yields quoted to it for the relevant security on or about 10.00am Sydney time by three leading dealers in the relevant security as selected by the Issuer.

However, the RES Margin may not be reset where IAG’s Credit Rating on the date the Reset Notice is despatched is less than IAG’s Credit Rating on the Amendment Date.

If Amended Preference Shares are issued, the Preference Share Margin may be reset by IAG under corresponding provisions in the Amended Preference Share Terms.

**1.3.10 Will Interest Payments and Dividends be grossed-up for franking credits?**

As with the Existing RES, the Amended RES will contain a gross-up provision if an Interest Payment is not franked to 100% at the time it is paid. Equivalent provisions are also contained in the Existing Preference Share Terms and Amended Preference Share Terms.

In addition, the Amended RES Terms will also include a new provision which may be relevant to amendments to the Tax Act in relation to franking credits that have been made since the Existing RES were issued. See Section 4.1.14 and section 4 of the Taxation Letter set out in Section 5.

Under this new provision, if the Commissioner of Taxation (**Commissioner**) has determined under section 177EA(5)(b) of the Tax Act that any imputation benefit of an Interest Payment (or an Optional Interest Payment) is to be denied to the recipient of the payment and that denial is on account of an act or circumstance which relates to the Issuer or IAG and which is not the result of any action by RES Holders either IAG or, if the Issuer so elects to, the Issuer, will use reasonable endeavours to ensure that RES Holders are not impacted by the determination of the Commissioner.

A payment, if any, made pursuant to this provision, will be subject to APRA’s prior written approval and conditions corresponding to the terms and conditions applicable to Interest Payments under the Amended RES Terms.

# 1 ANSWERS TO KEY QUESTIONS

## 1.3.11 Are any changes proposed to the withholding tax gross up provisions?

Under the Existing RES Terms, the Issuer is required to deduct from any payment to a RES Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such payment. If this occurs, the Issuer is required under the Existing RES Terms to gross up this amount so that the RES Holder receives the same amount in respect of that payment as if no such deduction had been made, subject to certain exceptions.

The Issuer is proposing to add to and modify these exceptions by providing that where the tax is imposed by the laws of the Commonwealth of Australia, New Zealand or other jurisdiction in which the Issuer or a substituted issuer is resident or carries on business or any political subdivision of any such jurisdiction (each a **Relevant Jurisdiction**) then no gross-up will apply to RES Holders who are liable to the withholding because the RES Holder has some connection with the Relevant Jurisdiction other than the mere holding of that RES or receipt of a payment on that RES. This modification will mean for example, that the Issuer will no longer gross up for any deductions made from payments to a RES Holder because of a New Zealand withholding required by reason of that RES Holder having a connection with New Zealand or a political subdivision of New Zealand. See Section 4.1.13 and Section 7.7.

The modification also gives the Issuer or substituted issuer flexibility to potentially change the tax jurisdiction in which it is resident or carries on business without incurring increased costs for gross-ups under the Amended RES Terms. The Issuer currently has no intention to make such a change.

## 1.4 THE PORTFOLIO

### 1.4.1 What will happen to the Portfolio if the proposed Amendments are approved?

If the proposed Amendments are approved, the Amended RES will no longer be secured by, or subject to, the Portfolio, which secures the Existing RES. The Issuer will enter into an agreement to terminate the management of the Portfolio and on the Amendment Date, the Trustee will release the security that it holds in favour of RES Holders over the Portfolio. This will allow the Group immediate use of the funds currently invested in the Portfolio.

If the proposed Amendments are not approved, IAG will Exchange the Existing RES for Existing Preference Shares under the Existing RES Terms by 15 March 2010. The Existing Preference Shares will not be secured by, or subject to, the Portfolio.

### 1.4.2 What will the Group do with the funds from the Portfolio?

The funds currently invested in the Portfolio will be made available to the Group to be invested in accordance with the Group's investment mandates.

### 1.4.3 Will the Amended RES still be secured?

No, the Amended RES will not be secured by the Portfolio or any other assets in a similar manner. Accordingly, the Amended RES will become unsecured, subordinated obligations of the Issuer.

However, if the proposed Amendments are not approved, IAG will Exchange the Existing RES for Existing Preference Shares under the Existing RES Terms by 15 March 2010. Claims in respect of the Existing Preference Shares are unsecured and subordinated to all creditors.

### 1.4.4 Will the Interest Payments on the Amended RES still be sourced from the Portfolio?

No, the Interest Payments on the Amended RES will be sourced solely from the Issuer and will not be sourced from the Portfolio or any assets which currently comprise the Portfolio.

## 1.5 RANKING

### 1.5.1 Where will the Amended RES rank?

The Existing RES are currently secured, limited recourse debt obligations of the Issuer and are not subordinated to any creditors of the Issuer. If winding-up is ordered (subject to applicable grace periods) in respect of the Issuer, the Existing RES are automatically Redeemed for the Redemption Amount that will be sourced from the Portfolio, not the Issuer. Additionally, under the Trust Deed, the initiation of winding-up proceedings (subject to applicable grace periods) in respect of the Issuer will constitute an event of default and allow the Trustee to enforce the security over the Portfolio.

<p><b>1.5.1 Where will the Amended RES rank? (continued)</b></p>	<p>If the Amendments are approved, the Amended RES will be unsecured and subordinated obligations of the Issuer.</p> <p>If a Liquidation Event occurs to the Issuer, an Exchange Event will occur automatically and RES Holders will receive an Amended Preference Share for each Amended RES.</p> <p>RES Holders will have no right to participate in any surplus profits or capital of the Issuer, either during the term of the Amended RES or upon the winding-up of the Issuer.</p> <p>If a Liquidation Event occurs to IAG, this will also cause an Exchange Event to occur automatically and RES Holders will receive an Amended Preference Share for each Amended RES.</p> <p>However, if the proposed Amendments are not approved, IAG will Exchange the Existing RES for Existing Preference Shares under the Existing RES Terms by 15 March 2010. Claims in respect of the Existing Preference Shares are unsecured and subordinated to all creditors and will have the same ranking as the Amended Preference Shares.</p>
<p><b>1.5.2 Where will the Amended Preference Shares rank?</b></p>	<p>The Amended Preference Shares will rank equally among themselves and with RPS1 in all respects and will be subordinated to any policyholders and creditors of IAG.</p> <p>The Amended Preference Shares will rank in priority to Ordinary Shares for the payment of Dividends.</p> <p>The Existing Preference Shares do not permit the issuance of prior ranking preference shares without Preference Shareholder consent. Under the Amended RES Terms and the Amended Preference Share Terms, IAG would be able to issue prior ranking preference shares without the approval of Preference Shareholders. However, practically IAG is currently prevented from doing so under the RPS1 terms without the approval of holders of RPS1.</p> <p>The Liquidation Sum due on a winding-up of IAG under the Amended Preference Share Terms will be \$100 plus any Dividend determined to be paid but unpaid.</p>
<p><b>1.5.3 Is the Issuer or IAG restricted in relation to other securities they may issue?</b></p>	<p>No, under the Amended RES Terms and Amended Preference Share Terms, neither the Issuer nor IAG is restricted in their ability to issue other securities, including other securities that rank in priority to the Amended RES and Amended Preference Shares.</p>
<p><b>1.6 RESET</b></p>	
<p><b>1.6.1 How do the reset provisions work for the Amended RES and the Amended Preference Shares?</b></p>	<p>On a Reset Date, the Issuer or IAG (as applicable) may determine the next Reset Date and/or the new RES Margin/Preference Share Margin (as applicable) commencing on that Reset Date. These new terms will apply from, and including, that Reset Date until, but excluding, the next Reset Date.</p> <p>The new RES Margin/Preference Margin (as applicable) will be set according to the Amended RES Terms/Amended Preference Share Terms (as applicable), which are outlined in Section 1.3.9, unless APRA approves otherwise.</p> <p>The first Reset Date will be 16 December 2019. Subsequent Reset Dates must be 10 years from the immediately preceding Reset Date, unless APRA approves otherwise.</p> <p>In response to a proposed reset, you can request Conversion of some or all of your Amended RES or Amended Preference Shares on a Reset Date. You can exercise your right to request Conversion by sending the Issuer a RES Holder Conversion Notice under the Amended RES Terms or by sending IAG a Preference Shareholder Conversion Notice under the Amended Preference Share Terms.</p> <p>In response to your request for Conversion, the Issuer or IAG (as applicable) may decide, at its discretion, to Redeem (subject to APRA's prior written approval) or Convert or Resell the Amended RES or the Amended Preference Shares (as applicable) for which you requested Conversion.</p> <p>APRA has advised the Issuer and IAG that as of the Amendment Date, while the Amended RES (or the Amended Preference Shares, if issued) remain Tier 1 Capital or Tier 2 Capital of the Group, its policy is not to approve any reset of the RES Margin (or the Preference Share Margin, if applicable) other than in accordance with the limitations described in Section 1.3.9 or the reset of the Reset Date to a date other than the date 10 years from the immediately preceding Reset Date. The Issuer and IAG have no control over APRA's policies.</p>

# 1 ANSWERS TO KEY QUESTIONS

## 1.7 EXCHANGE

### 1.7.1 How will IAG's Exchange rights change?

Under the Existing RES Terms, IAG has the right to Exchange some or all Existing RES into Existing Preference Shares at any time, subject to certain restrictions. If the proposed Amendments are approved, all Amended RES will be Exchanged for Amended Preference Shares:

- mandatorily, if an Exchange Event occurs; or
- at any time at the option of IAG.

Unlike the Existing RES Terms, this means that Exchange into Amended Preference Shares may be outside the control of IAG.

### 1.7.2 What are Exchange Events?

The Exchange Events are:

- a Liquidation Event occurs in relation to the Issuer or IAG;
- an Interest Payment is not paid in full within 40 Business Days of the scheduled Interest Payment Date for any reason other than due to an APRA Condition existing on the relevant Interest Payment Date;
- the Amended RES are not Redeemed or Converted within 20 Business Days of the Realisation Date;
- IAG fails to comply with the distribution restrictions (refer to Section 1.3.8);
- an Issuer Change of Control Event occurs; or
- unless APRA otherwise specifies in writing:
  - (1) APRA determines, in writing, that the Group's capital base is less than its MCR;
  - (2) APRA issues a written direction for the Group to increase its capital;
  - (3) APRA revokes the authorisation of any general insurer within the Group pursuant to section 15(1) of the Insurance Act 1973 (Cwlth) or any non-operating holding company within the Group pursuant to section 21(1) of the Insurance Act 1973 (Cwlth) or proceedings have been commenced for the winding-up of such a general insurer or non-operating holding company (in each case other than in connection with a transfer, amalgamation or cessation of business while solvent on terms approved by APRA);
  - (4) any event under applicable foreign law equivalent to an event that is an Exchange Event under paragraph (3) above, which occurs in relation to a Material Foreign Subsidiary;
  - (5) the retained earnings of the Group, on a consolidated basis, fall by more than \$1 billion from the level indicated in the 30 June 2009 annual group accounts (e.g. retained earnings of negative \$1.6 billion would cause an Exchange Event); or
  - (6) a Company Group Event occurs and the proceeds of the Amended RES are not redeployed within the Group on terms approved by APRA so that the Amended RES continue to constitute Tier 1 Capital or Upper Tier 2 Capital for the Group.

<p><b>1.7.3 What happens on Exchange?</b></p>	<p>On Exchange, the Amended RES will be transferred by you to IAG in consideration for IAG issuing the Amended Preference Shares. Exchange is automatic and irrevocable and the Amended RES Terms contain provisions to facilitate Exchange being effected without further act on the part of a RES Holder. Following Exchange, instead of receiving Interest Payments on the Amended RES, you will receive Dividends from IAG on the Amended Preference Shares, subject to the Amended Preference Share Terms. The Amended Preference Shares have substantially the same terms as the Amended RES so that your rights to a distribution and your rights and obligations in respect of the Redemption, Conversion or Resale of the Amended Preference Shares are equivalent to the corresponding rights and obligations in relation to the Amended RES.</p> <p>Unlike the Existing Preference Shares, the issue price of the Amended Preference Shares will not be subject to the Redemption Amount on the Existing RES (which may be less than \$100, depending upon the Portfolio). Instead, the Issue Price will be the obligation to transfer the Amended RES to IAG and this will be automatically satisfied upon an Exchange occurring. All calculations concerning Dividends, Conversion and the Liquidation Sum will then be based on \$100 per Amended Preference Share rather than the Preference Share Issue Price. Accordingly, compared to the Existing Preference Shares, the value of the Amended Preference Share is not subject to the value of the Portfolio at the time of Exchange.</p>
<p><b>1.7.4 What happens if IAG fails to issue the Amended Preference Shares?</b></p>	<p>If IAG fails to issue the Amended Preference Shares upon an Exchange, then you will have no claim against the Issuer for that failed Exchange and any claim in respect of Amended RES will be limited to:</p> <ul style="list-style-type: none"> <li>• an order for specific performance that IAG issue the Amended Preference Shares according to the Amended RES Terms; or</li> <li>• such monetary claim on IAG which you would have had if the Amended Preference Shares had been issued in accordance with the Amended RES Terms. Such claim on IAG ranks subordinate to claims of all IAG Senior Creditors as provided in the Trust Deed.</li> </ul>

## 1.8 YOUR RIGHTS TO REQUEST REDEMPTION OR CONVERSION

<p><b>1.8.1 How will your rights to request Redemption change under the Amended RES change?</b></p>	<p>Under the Existing RES Terms, you have the right to request Redemption of your Existing RES on any Reset Date or if a Trigger Event (see definition below) occurs.</p> <p>To allow the Amended RES to qualify as Innovative Tier 1 Capital, this right will change so that you will no longer have a right to request Redemption of your Amended RES on any Reset Date or if a Trigger Event occurs. Instead, you will have the right to request Conversion of your Amended RES on any Reset Date or following the occurrence of an Acquisition Event. You will no longer have any right to request Redemption (or Conversion) if a Trigger Event occurs.</p> <p>In response to your request for Conversion, the Issuer may decide, at its discretion, to Redeem (subject to APRA's prior written approval) or Convert or Resell the Amended RES for which you requested Conversion. This is like the Issuer's discretion to Redeem, Convert or Resell the Existing RES in response to a RES Holder's request for Redemption under the Existing RES Terms.</p> <p>A Trigger Event under the Existing RES Terms means the occurrence of any of the following events:</p> <ul style="list-style-type: none"> <li>• an Interest Payment is not paid in full for any reason (except because of the current Interest Payment Tests) within 20 Business Days of the relevant Interest Payment Date;</li> <li>• a Liquidation Event occurs in relation to IAG or a Liquidation Event (other than a Winding-Up Event) occurs in relation to the Issuer or IAG Portfolio;</li> <li>• Ordinary Shares are suspended from trading on ASX for a period of 20 consecutive Business Days;</li> <li>• IAG makes an announcement to ASX that it intends to sell all or substantially all of its business, undertaking or assets other than to effect a solvent reconstruction; or</li> <li>• the Issuer or IAG Portfolio ceases to be, directly or indirectly, a subsidiary of IAG.</li> </ul>
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# 1 ANSWERS TO KEY QUESTIONS

<b>1.8.2 Can you request Redemption or Conversion under the Amended Preference Shares?</b>	<p>Under the Existing Preference Share Terms, you do not have any right to request Redemption or Conversion of your Existing Preference Shares.</p> <p>Under the Amended Preference Share Terms, you will have a new right to request Conversion of your Amended Preference Shares on any Reset Date or following the occurrence of an Acquisition Event.</p> <p>In response to your request for Conversion, IAG may decide, at its discretion, to Redeem (subject to APRA's prior written approval) or Convert or Resell Amended Preference Shares in respect of which you requested Conversion.</p>
<b>1.8.3 How can you exercise your right to request Conversion?</b>	<p>You can exercise your right to request Conversion by sending the Issuer a RES Holder Conversion Notice under the Amended RES Terms, or by sending IAG a Preference Shareholder Conversion Notice under the Amended Preference Share Terms. The Issuer or IAG, as applicable, will respond with an Issuer Notice or a Preference Share Exchange Notice, as applicable, detailing which of Redemption, Conversion or Resale will apply.</p>
<b>1.8.4 Are there any limitations on your right to request Conversion?</b>	<p>Under the Amended RES Terms, an Issuer Notice given by the Issuer pursuant to its rights to initiate a Redemption, Conversion or Resale (see Section 1.9.1) will prevail over a RES Holder Conversion Notice regardless of which is given first. Similarly, if IAG gives an Exchange Notice under the Amended RES Terms due to an Exchange Event which is a Liquidation Event in respect of IAG, that notice will also prevail over a RES Holder Conversion Notice regardless of which is given first.</p> <p>If an Exchange Event occurs (other than a Liquidation Event in respect of IAG) or IAG decides at its option to Exchange Amended RES for Amended Preference Shares after a RES Holder Conversion Notice or an Issuer Notice has been given (but before Redemption, Conversion or Resale has occurred), the Exchange into Amended Preference Shares will be carried out despite the RES Holder Conversion Notice or the Issuer Notice but the Amended Preference Shares, when issued, will be Redeemed, Converted or Resold on the same basis that would have applied to the Amended RES if the Exchange had not occurred (subject to necessary adjustments to time periods).</p> <p>Under the Amended Preference Share Terms, a Preference Share Exchange Notice given by IAG pursuant to its rights to initiate a Redemption, Conversion or Resale (see Section 1.9.2) will prevail over a Preference Shareholder Conversion Notice regardless of which is given first.</p>

## 1.9 THE ISSUER'S AND IAG'S RIGHT TO INITIATE REDEMPTION, CONVERSION OR RESALE

<b>1.9.1 What are the Issuer's rights to initiate a Redemption, Conversion or Resale under the Amended RES?</b>	<p>Under the Existing RES Terms, the Issuer may Redeem or Convert:</p> <ul style="list-style-type: none"><li>• all or some Existing RES on any Reset Date;</li><li>• all or some Existing RES at any time, if a Tax Event or a Regulatory Event has occurred;</li><li>• all or some Existing RES at any time, if an Acquisition Event has occurred; or</li><li>• all (but not some only) Existing RES at any time, if there are less than one million Existing RES on issue.</li></ul> <p>Under the Amended RES Terms these terms are similar but key differences are that:</p> <ul style="list-style-type: none"><li>• the Issuer may also Resell the Amended RES;</li><li>• it will also have these rights upon a Potential Acquisition Event, as well as on an Acquisition (a Potential Acquisition Event will occur at an earlier point in any acquisition process – see the definition of Potential Acquisition Event in the Amended RES Terms); and</li><li>• a Regulatory Event will occur not only if the Amended RES are not Innovative Tier 1 Capital but also to the extent the Group is not entitled to treat the Amended RES as Upper Tier 2 Capital. This is because the total hybrid capital the Group will have on issue once the Amended RES are amended exceeds the Group's limit on Innovative Tier 1 Capital – see Section 1.2.2 above.</li></ul> <p>The Issuer's right to Redeem Amended RES is subject to the prior written approval of APRA.</p>
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**1.9.2 What are IAG's rights to initiate Redemption, Conversion or Resale under the Amended Preference Shares?**

Under the Existing Preference Share Terms, IAG may Redeem or Convert the Existing Preference Shares:

- all or some Existing Preference Shares at any time, if a Tax Event or a Regulatory Event has occurred;
- all (but not some only) Existing Preference Shares at any time, if there are less than one million Existing Preference Shares on issue;
- no later than 35 Business Days after IAG has announced that an Acquisition Event has occurred and in respect of all (but not some only) Existing Preference Shares; or
- at least 35 Business Days (but not more than three months) before any Dividend Payment Date from, and including, the Step-Up Date, in respect of all or some Existing Preference Shares.

To reflect the removal of the Step-Up Date and the inclusion of the reset feature, these rights will be changed to allow IAG to Redeem, Convert or Resell:

- all or some Amended Preference Shares at any time, if a Tax Event or a Regulatory Event has occurred;
- all (but not some only) Amended Preference Shares at any time, if there are less than one million Amended Preference Shares on issue;
- in respect of all (but not some only) Amended Preference Shares, if a Potential Acquisition Event or an Acquisition Event has occurred; or
- at least 35 Business Days (but not more than three months) before any Reset Date which occurs while the Amended Preference Shares are on issue.

The changes made to Potential Acquisition Event and Regulatory Event correspond to the changes made in the Amended RES Terms.

IAG's right to Redeem Amended Preference Shares is subject to the prior written approval of APRA.

**1.10 CONVERSION**

**1.10.1 Will Conversion under the Amended RES or Amended Preference Shares be different to the existing Conversion mechanics?**

No, although the Redemption Amount under the Amended RES Terms will be fixed at \$100 and the numerator in the equation to determine the Conversion Number under the Amended Preference Share Terms will similarly be fixed at \$100, rather than being a Preference Share Issue Price which could be less than \$100 according to the proceeds from the realisation of the Portfolio.

Accordingly, under the Amended RES, the Conversion Number (i.e. the number of Ordinary Shares you receive upon a Conversion) will be calculated as:

$$\frac{\text{Redemption Amount}}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$$

The Redemption Amount will be fixed at \$100.

Under the Amended Preference Shares, the Conversion Number (i.e. the number of Ordinary Shares you receive upon a Conversion) will be calculated as:

$$\frac{\$100}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$$

# 1 ANSWERS TO KEY QUESTIONS

## 1.11 REDEMPTION

### 1.11.1 Will Redemption under the Amended RES or Amended Preference Shares be different to the existing Redemption mechanics?

No, although the Redemption Amount under the Amended RES Terms and the amount due on Redemption of the Amended Preference Shares will be fixed at \$100, rather than an amount which could be less than \$100 according to the proceeds from the realisation of the Portfolio.

## 1.12 RESALE

### 1.12.1 What is Resale?

Under the Existing RES Terms, the Issuer has the right to respond to a RES Holder request for Redemption by arranging for the resale of Existing RES to a third party.

To help the terms of the Amended RES and the Amended Preference Shares reflect current market practices for Tier 1 Capital instruments, the Resale mechanics are being expanded in the Amended RES Terms and introduced into the Amended Preference Share Terms.

The Amended RES Terms and the Amended Preference Share Terms allow the Issuer or IAG (as applicable), following your request for Conversion or after certain events occurring, to arrange the sale of your Amended RES or Amended Preference Shares (as applicable) to a third party (Nominated Purchaser) for an amount equal to \$100. You will retain the right to any Interest Payment or Dividend (as applicable) due on the date that the Resale occurs on.

### 1.12.2 What happens if a Resale fails?

If a Nominated Purchaser does not pay the Resale Price, the Resale process will be cancelled and Amended RES or Amended Preference Shares (as applicable) will not otherwise be Redeemed, Converted or Resold.

Where a RES Holder/Preference Shareholder has requested Conversion, the Issuer or IAG (as applicable) must (subject to any right IAG has to Exchange Amended RES into Amended Preference Shares) elect to Redeem (subject to APRA's prior written approval) Convert or Resell those Amended RES/Amended Preference Shares. In any other case, the Issuer or IAG may elect to Redeem (subject to APRA's prior written approval) or Convert or Resell all (but not some) Amended RES/Amended Preference Shares referable to the defaulting Nominated Purchaser. The date for new Resale, Conversion or Redemption will be no later than 45 Business Days on which the Resale was originally scheduled to occur.

## 1.13 AMENDMENT PROCESS

### 1.13.1 How are the proposed Amendments being effected?

The proposed Amendments will only come into effect if the resolution set out in the Notice of Meeting is approved by Special Resolution passed at the RES Holder Meeting.

The Special Resolution will pass if at least 75% of votes cast at the RES Holder Meeting are in favour of the resolution.

If the Special Resolution is passed, the Issuer and IAG propose to enter into a deed with the Trustee which will have the effect of amending and restating the Trust Deed, the Existing RES Terms and the Existing Preference Share Terms from, and including, the Amendment Date.

### 1.13.2 How many votes are needed for the proposed Amendments to be approved?

For the proposed Amendments to be approved, a Special Resolution of RES Holders must be passed. This requires that at least 75% of votes cast at the RES Holder Meeting (including proxies) approve the Amendments (and does not require the vote of at least 75% of all RES Holders).

<b>1.13.3 When will the proposed Amendments take effect?</b>	If approved, the proposed Amendments will take effect on the Amendment Date, which is scheduled to be 15 December 2009.
<b>1.13.4 Will the Amended RES continue to be quoted on ASX?</b>	Yes, the Amended RES will continue to be quoted on ASX.
<b>1.13.5 What are the proposed amendments to the Trust Deed?</b>	It is proposed that the Trust Deed be amended as necessary to complement and be consistent with the proposed Amendments. Because the Portfolio is being terminated, the key change to the Trust Deed will be the deletion of the security over the Portfolio which the Trustee currently holds on trust for RES Holders. For more information on the amendments to the Trust Deed, see Section 7.2.
<b>1.14 MEETING DETAILS</b>	
	See the Notice of Meeting for complete details of the RES Holder Meeting.
<b>1.14.1 When is the meeting?</b>	The RES Holder Meeting will be held on 9 December 2009, commencing at 4.00pm, with registration starting at 3.30pm.
<b>1.14.2 Where is the meeting?</b>	The RES Holder Meeting will be held at Hilton Sydney, 488 George Street, Sydney NSW 2000.
<b>1.14.3 Who can vote?</b>	To be eligible to vote on the proposed Amendments, you must be a registered holder of Existing RES at 7.00pm on 2 December 2009.
<b>1.14.4 Can I vote before the meeting?</b>	No, either you, your attorney, your corporate representative, or your proxy must attend the meeting in order to vote. See the Notice of Meeting for further details.
<b>1.14.5 Can I vote at the meeting?</b>	Yes, if you are an eligible RES Holder, you can vote in person at the RES Holder Meeting, or you may appoint a proxy, attorney or, in the case of a corporate RES Holder, a corporate representative to vote on your behalf.
<b>1.14.6 Do I have to vote?</b>	No, you do not have to vote on the proposed Amendments. However, if passed, the proposed Amendments will bind all RES Holders, so you should read this entire Explanatory Statement to understand the impact the proposed Amendments will have on your investment in the Existing RES. If, after reading this Explanatory Statement, you are still unsure whether, or how, to vote on the proposed Amendments, you should consult your accountant, stockbroker, lawyer or other professional adviser.
<b>1.14.7 Will I be bound by the proposed Amendments if they are approved even if I do not vote or I vote against them?</b>	Yes, if the proposed Amendments are passed by a Special Resolution, you will be bound by the Amendments and your Amended RES will be governed by the Amended RES Terms and the Amended Preference Shares will be governed by the Amended Preference Share Terms (if issued), even if you did not vote or voted against the Amendments.

# 1 ANSWERS TO KEY QUESTIONS

## 1.15 ADDITIONAL QUESTIONS

### 1.15.1 What are the risks of holding the Amended RES?

The risk profile of the Existing RES and Existing Preference Shares will change if the proposed Amendments are approved. There are particular risks associated with holding the Amended RES and Amended Preference Shares, as well as common risks regardless of whether the Amendments are approved. There are also general risks associated with the Group and the general insurance industry.

These risks are set out in Section 4.

### 1.15.2 What are the taxation consequences of holding the Amended RES?

The taxation consequences of holding the Amended RES will depend on your individual circumstances. You should obtain your own taxation advice before you decide whether, or how, to vote. A general outline of the Australian taxation consequences for holding the Amended RES and the Amended Preference Shares is in the Taxation Letter from Mallesons Stephen Jaques in Section 5.

The Issuer has applied to the Australian Taxation Office (**ATO**) for a class ruling in relation to the proposed Amendments. The class ruling will cover Australian income tax and CGT consequences for RES Holders arising from approving the proposed Amendments.

### 1.15.3 How can I find out more information about the proposed Amendments?

A number of relevant documents are available free of charge from the Issuer or IAG prior to the RES Holder Meeting – see Section 7.1.

If, after reading this Explanatory Statement, you have any questions, then please contact your accountant, stockbroker, lawyer or other professional adviser or call the **RES Information Line** on **1300 666 635** if calling from within Australia, **+61 3 9415 4210** from outside Australia, Monday to Friday (8.30am–5.30pm).