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## APPENDIX A GLOSSARY

The following is a glossary of terms used in this Explanatory Statement and the Notice of Meeting and includes terms commonly used in the general insurance industry. There is also a list of defined terms in clause 16.2 of the Amended RES Terms and clause 11.2 of the Amended Preference Share Terms.

<b>ABN</b>	Australian Business Number
<b>Acquisition Event</b>	refers to certain takeovers and schemes of arrangement as set out in: (a) for the Existing RES, clause 16.2 of the Existing RES Terms; (b) for the Existing Preference Shares, clause 9.2 of the Existing Preference Share Terms; (c) for the Amended RES, clause 16.2 of the Amended RES Terms; or (d) for the Amended Preference Shares, clause 11.2 of the Amended Preference Share Terms
<b>Amended Preference Share</b>	a fully paid preference share in the capital of IAG issued in accordance with the Amended Preference Share Terms
<b>Amended Preference Share Terms</b>	the full terms of the Amended Preference Shares in Appendix C (marked to show additions to and deletions from the Existing Preference Share Terms)
<b>Amended RES</b>	perpetual reset exchangeable securities issued by the Issuer according to the Prospectus and as amended per the Amended RES Terms, and as described in clause 1.1 of the Amended RES Terms. The Amended RES will be unsecured notes for the purposes of section 283BH of the Corporations Act
<b>Amended RES Terms</b>	the full terms of the Amended RES in Appendix B (marked to show additions to and deletions from the Existing RES Terms)
<b>Amendment Date</b>	15 December 2009
<b>Amendments</b>	the proposed amendments to the Existing RES Terms and Existing Preference Share Terms (as set out in Appendices B and C) and the Trust Deed as explained in this Explanatory Statement
<b>APRA</b>	Australian Prudential Regulation Authority (ABN 79 635 582 658)

<b>APRA Conditions</b>	<p>means:</p> <ul style="list-style-type: none"> <li>(a) unless APRA otherwise approves in writing: <ul style="list-style-type: none"> <li>(i) paying the Interest Payment/Dividend (as applicable to either the Amended RES or Amended Preference Shares) 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>(ii) the Interest Payment/Dividend (as applicable to either the Amended RES or Amended Preference Shares) on the payment date would exceed Distributable Profits as at the Record Date for the payment;</li> </ul> </li> <li>(b) making the Interest Payment/Dividend (as applicable to either the Amended RES or Amended Preference Shares) would result in IAG (or the Issuer, in the case of Amended RES only) becoming, or becoming likely to become, insolvent for the purposes of the Corporations Act; or</li> <li>(c) APRA objecting to the Interest Payment/Dividend (as applicable to either the Amended RES or Amended Preference Shares) being made on the payment date,</li> </ul> <p>as set out in;</p> <ul style="list-style-type: none"> <li>(a) for the Amended RES, clause 16.2 of the Amended RES Terms; or</li> <li>(b) for the Amended Preference Shares, clause 11.2 of the Amended Preference Share Terms</li> </ul> <p>The APRA Conditions also apply to any Optional Interest Payment or Optional Dividend</p>
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	ASX Limited (ABN 98 008 624 691)
<b>ASX Listing Rules</b>	the listing rules of ASX with any modification or waivers in their application to the Issuer or IAG, which ASX may grant
<b>Australian Accounting Standards</b>	<ul style="list-style-type: none"> <li>(a) the accounting standards as defined in section 9 of the Corporations Act;</li> <li>(b) the requirements of the Corporations Act for the preparation and content of accounts; and</li> <li>(c) generally accepted accounting principles and practices consistently applied in Australia, including any domestically accepted international accounting standards, except principles and practices that are inconsistent with those referred to in paragraph (a) or (b) of this definition</li> </ul>
<b>Bank Bill Rate</b>	<p>refers to the bank bill rate for an Interest Period or a period for payment of a Dividend, as set out in:</p> <ul style="list-style-type: none"> <li>(a) for the Existing RES, clause 3.1 of the Existing RES Terms;</li> <li>(b) for the Existing Preference Shares, clause 2.1 of the Existing Preference Shares Terms;</li> <li>(c) for the Amended RES, clause 3.1 of the Amended RES Terms; or</li> <li>(d) for the Amended Preference Shares, clause 2.1 of the Amended Preference Share Terms</li> </ul>
<b>Business Day</b>	a business day as defined in the ASX Listing Rules
<b>Ceded</b>	to transfer liability in connection with a risk, or portion of it, from the original insurer to the reinsurer
<b>CGU</b>	CGU Insurance Limited (ABN 27 004 478 371)
<b>CHESS</b>	Clearing House Electronic Subregister System operated by an associate of ASX
<b>Company Group Event</b>	means for any reason, that IAG (NZ) Holdings Limited (the holding company of the Group's New Zealand business), ceases to form part of the Group
<b>Conversion</b>	<p>refers to a conversion of RES or Preference Shares (as the case may be) into Ordinary Shares as set out in:</p> <ul style="list-style-type: none"> <li>(a) for the Existing RES, clause 4.1(b) of the Existing RES Terms;</li> <li>(b) for the Existing Preference Shares, clause 3.1(b) of the Existing Preference Share Terms;</li> <li>(c) for the Amended RES, clause 4.1(b) of the Amended RES Terms; or</li> <li>(d) for the Amended Preference Shares, clause 3.1(b) of the Amended Preference Share Terms</li> </ul> <p><b>Convert, Converted</b> and <b>Convertible</b> have corresponding meanings</p>

<b>Conversion Number</b>	refers to the number of Ordinary Shares to be issued upon Conversion as set out in: (a) for the Existing RES, clause 7.2 of the Existing RES Terms; (b) for the Existing Preference Shares, clause 3.7(b) of the Existing Preference Share Terms; (c) for the Amended RES, clause 7.2 of the Amended RES Terms; or (d) for the Amended Preference Share, clause 3.10(b) of the Amended Preference Share Terms
<b>Core Operating Companies</b>	means the IAG Entities identified by S&P as core operating companies from time to time for the purpose of assigning IAG's Credit Rating and which are anticipated to be, as at the Amendment Date: Insurance Australia Limited, CGU Insurance Limited, IAG New Zealand Limited, Swann Insurance (Aust) Pty Limited and IAG Re Australia Limited
<b>Corporations Act</b>	Corporations Act 2001 (Cwlth)
<b>CTP</b>	compulsory third party insurance, which is liability cover that motorists are obliged to purchase
<b>Custodian</b>	refers to the custodian of the Portfolio according to the Portfolio Management Agreement
<b>Directors</b>	some or all of the directors of the Issuer acting as a board
<b>Distributable Portfolio Income Amount</b>	with respect to an Interest Period, the Net Portfolio Income for the Interest Period divided by the number of Existing RES on issue at the end of the Interest Period
<b>Distributable Portfolio Proceeds Amount</b>	with respect to a Realisation Date, the Net Portfolio Proceeds divided by the number of Existing RES being Redeemed, Converted or Exchanged.
<b>Distributable Profits</b>	refers to the after tax earnings of the Group as calculated in accordance with: (a) for the Amended RES, clause 16.2 of the Amended RES Terms; or (b) for the Amended Preference Shares, clause 11.2 of the Amended Preference Share Terms
<b>Distributable Profits Test</b>	the test set out in clause 2.3(d) of the Existing Preference Share Terms which relates to whether there are sufficient distributable profits in connection with a Dividend being paid on the Existing Preference Shares
<b>Dividend</b>	refers to the dividend calculated and payable according to: (a) for the Existing Preference Shares, clause 2.1 of the Existing Preference Share Terms; and (b) for the Amended Preference Shares, clause 2.1 of the Amended Preference Share Terms
<b>Dividend Payment Date</b>	refers to the dates on which Dividends are payable as set out in: (a) for the Existing Preference Shares, clause 2.5 of the Existing Preference Share Terms; or (b) for the Amended Preference Shares, clause 2.5 of the Amended Preference Share Terms
<b>Dividend Payment Tests</b>	refers to the conditions to the payment of Dividends as set out in: (a) for the Existing Preference Shares, clause 2.3 of the Existing Preference Share Terms; or (b) for the Amended Preference Shares, clause 2.3 of the Amended Preference Share Terms
<b>Dividend Rate</b>	refers to a rate which is a function of the Preference Share Margin, Bank Bill Rate and the Tax Rate as set out in: (a) for the Existing Preference Shares, clause 2.1 of the Existing Preference Share Terms; or (b) for the Amended Preference Shares, clause 2.1 of the Amended Preference Share Terms
<b>Exchange</b>	refers to exchange of Existing RES for Existing Preference Shares or Amended RES for Amended Preference Shares as set out in: (a) for the Existing RES, clause 4.1(c) of the Existing RES Terms; or (b) for the Amended RES, clause 4.1(c) of the Amended RES Terms <b>Exchanged</b> has the corresponding meaning

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<b>Exchange Event</b>	refers to the exchange events as set out in clause 16.2 of the Amended RES Terms
<b>Existing Preference Share</b>	a fully paid preference share in the capital of IAG issued in accordance with the Existing Preference Share Terms
<b>Existing Preference Share Terms</b>	the full terms of the Existing Preference Shares as set out in the Prospectus
<b>Existing RES</b>	perpetual reset exchangeable securities issued by the Issuer according to the Prospectus and the Existing RES Terms, and as described in clause 1.1 of the Existing RES Terms. The Existing RES are unsecured notes for the purposes of section 283BH of the Corporations Act
<b>Existing RES Terms</b>	the full terms of the Existing RES as set out in the Prospectus
<b>Explanatory Statement</b>	this document dated 23 October 2009
<b>Fair Market Yield</b>	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/IAG (as applicable) 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/IAG (as applicable)
<b>Fundamental Tier 1 Capital</b>	fundamental tier 1 capital as defined by APRA
<b>Gross Written Premium or GWP</b>	the total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured
<b>Group</b>	each IAG Entity which is treated by APRA as forming the Level 2 group of IAG
<b>GST</b>	goods and services tax
<b>IAG</b>	Insurance Australia Group Limited (ABN 60 090 739 923)
<b>IAG’s Credit Rating</b>	means the insurance financial strength rating of the Group’s Core Operating Companies, as published by S&P, which is anticipated to be, as of the Amendment Date, “AA–”
<b>IAG Directors</b>	some or all of the directors of IAG acting as a board
<b>IAG Entity</b>	IAG and each of its related bodies corporate
<b>IAG Portfolio</b>	IAG Portfolio Limited (ABN 38 111 769 843)
<b>IAG Profits Test</b>	Either (or both) of the following: <ul style="list-style-type: none"> <li>• there are distributable profits in IAG equal to or greater than the aggregate Interest Payment on a relevant Interest Payment Date; or</li> <li>• IAG has paid a dividend on any class of its capital in the period of 12 months prior to the relevant Interest Payment Date</li> </ul> as detailed in clause 3.3(b) of the Existing RES terms
<b>IAG Senior Creditors</b>	means all present and future creditors of IAG whose claims are: <ol style="list-style-type: none"> <li>(a) entitled to be admitted in the winding-up of IAG; and</li> <li>(b) not expressed to rank equally with, or subordinate to, the claims of the RES Holders under the Trust Deed</li> </ol>
<b>Independent Expert</b>	KPMG
<b>Innovative Tier 1 Capital</b>	innovative tier 1 capital as defined by APRA
<b>Insurance Profit</b>	underwriting result plus investment income on assets backing Technical Reserves

<b>Interest Payment</b>	refers to an interest payment on the Existing RES or the Amended RES as set out in: (a) for the Existing RES, clause 3.1 of the Existing RES Terms; or (b) for the Amended RES, clause 3.1 of the Amended RES Terms
<b>Interest Payment Date</b>	refers to the dates on which interest is payable as set out in: (a) for the Existing RES, clause 3.7 of the Existing RES Terms, or (b) for the Amended RES, clause 3.7 of the Amended RES Terms
<b>Interest Payment Tests</b>	refers to the conditions to the payment of interest as set out in: (a) for the Existing RES, clause 3.3 of the Existing RES Terms; or (b) for the Amended RES, clause 3.3 of the Amended RES Terms
<b>Interest Period</b>	refers to periods as set out in: (a) for the Existing RES, clause 16.2 of the Existing RES Terms; or (b) for the Amended RES, clause 16.2 of the Amended RES Terms
<b>Interest Rate</b>	refers to a rate which is a function of the RES Margin, Bank Bill Rate and Tax Rate as set out in: (a) for the Existing RES, clause 3.1 of the Existing RES Terms; or (b) for the Amended RES, clause 3.1 of the Amended RES Terms
<b>Issue Credit Rating</b>	a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program
<b>Issue Price</b>	\$100
<b>Issuer</b>	IAG Finance (New Zealand) Limited (ABN 97 111 268 243), acting through its New Zealand branch
<b>Issuer Change of Control Event</b>	has the meaning in clause 16.2 of the Amended RES Terms
<b>Issuer Credit Rating</b>	a forward-looking opinion about 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. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation
<b>Issuer Notice</b>	refers to an issuer notice as defined in: (a) for the Existing RES, clause 16.2 of the Existing RES Terms; or (b) for the Amended RES, clause 16.2 of the Amended RES Terms
<b>Level 1</b>	level 1 as defined by APRA
<b>Level 2</b>	means a level 2 insurance group as defined by APRA from time to time
<b>Liquidation Event</b>	refers to certain events as set out in: (a) for the Existing RES, clause 16.2 of the Existing RES Terms; or (b) for the Amended RES, clause 16.2 of the Amended RES Terms
<b>Liquidation Sum</b>	refers to the amount of cash payable to Preference Shareholders if there is a return of capital on a winding-up of IAG as set out in: (a) for the Existing Preference Shares, clause 4.5 of the Existing Preference Share Terms; or (b) for the Amended Preference Shares, clause 5.5 of the Amended Preference Share Terms
<b>Long-tail</b>	classes of insurance (such as CTP and workers' compensation) with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs

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<b>Material Foreign Subsidiary</b>	any member of the Group incorporated and operating as a general insurer outside of Australia whose net premium revenue contributes 10% or more to the consolidated net premium revenue of the Group
<b>MCR</b>	minimum capital requirement applicable to the Group as defined by APRA
<b>Net Claims Expense</b>	insurance claim losses incurred plus claims handling expenses net of recoveries from reinsurance arrangements
<b>Net Earned Premium</b>	net earned premium is gross earned premium less reinsurance premiums paid
<b>Net Portfolio Income</b>	the net cash income received on or in respect of the Portfolio in an Interest Period determined by IAG Portfolio according to the Portfolio Management Agreement and as defined in clause 16.2 of the Existing RES Terms
<b>Net Portfolio Proceeds</b>	the net cash proceeds received on realisation of the Portfolio (either in whole or in part depending on the proportion of the Existing RES being Redeemed, Converted or Exchanged) less any amount attributable to Net Portfolio Income for an Interest Period and any amounts owing to the Trustee or Custodian or a receiver, as defined in clause 16.2 of the Existing RES Terms
<b>Nominated Purchaser</b>	means a third party as described in Section 1.12.1 and as set out in clause 16.2 of the Amended RES Terms and clause 11.2 of the Amended Preference Share Terms
<b>Net Tier 1 Capital</b>	net tier 1 capital as defined by APRA
<b>Non-innovative Residual Tier 1 Capital</b>	non-innovative residual tier 1 capital as defined by APRA
<b>Notice of Meeting</b>	the notice of meeting accompanying this Explanatory Statement
<b>Optional Dividend</b>	refers to an optional dividend as set out in: (a) for the Existing Preference Shares, clause 2.8(f) of the Existing Preference Share Terms; or (b) for the Amended Preference Shares, clause 2.8(f) of the Amended Preference Share Terms
<b>Optional Interest Payment</b>	refers to an optional interest payment as set out in: (a) for the Existing RES, clause 3.5 of the Existing RES Terms; or (b) for the Amended RES, clause 3.5 of the Amended RES Terms
<b>Ordinary Share</b>	a fully paid ordinary share in the capital of IAG
<b>Ordinary Share Issue Price</b>	refers to the amount which is calculated according to: (a) for the Existing RES, clause 7.1 of the Existing RES Terms; or (b) for the Amended RES, clause 7.1 of the Amended RES Terms
<b>Ordinary Shareholder</b>	a holder of Ordinary Shares
<b>Portfolio</b>	refers to the aggregate assets held by the Custodian for IAG Portfolio and managed by the Portfolio Manager according to the Portfolio Management Agreement
<b>Portfolio Management Agreement</b>	refers to the portfolio management agreement executed by the Issuer, IAG, IAG Portfolio, the Portfolio Manager, the Trustee and the Custodian after the date of the Trust Deed
<b>Portfolio Manager</b>	means IAG Asset Management Limited (ABN 94 054 552 046) appointed as portfolio manager according to the Portfolio Management Agreement
<b>Portfolio Security</b>	a security included in the Portfolio
<b>Potential Acquisition Event</b>	refers to certain incomplete takeover bids and schemes of arrangement as set out in: (a) for the Amended RES, clause 16.2 of the Amended RES Terms; or (b) for the Amended Preference Shares, clause 11.2 of the Amended Preference Share Terms

<b>Preference Share Exchange Notice</b>	refers to a notice given to Preference Shareholders as set out in: (a) for the Existing Preference Shares, clause 3.3 of the Existing Preference Share Terms; or (b) for the Amended Preference Shares, clause 3.5 of the Amended Preference Share Terms
<b>Preference Share Issue Date</b>	the date on which the Existing Preference Shares/Amended Preference Shares are issued to RES Holders according to clause 8 of the Existing RES Terms/Amended RES Terms (as applicable)
<b>Preference Share Issue Price</b>	the issue price of each Existing Preference Share or Amended Preference Share (as applicable) as set out in: (a) for the Existing Preference Shares, clause 1(b) of the Existing Preference Share Terms; or (b) for the Amended Preference Shares, clause 1(b) of the Amended Preference Share Terms
<b>Preference Share Margin</b>	the margin on the Existing Preference Shares or Amended Preference Shares (as applicable), as set out in: (a) for the Existing Preference Shares, clause 2.1 of the Existing Preference Share Terms; or (b) Amended Preference Shares, clause 2.1 of the Amended Preference Share Terms (as may be reset according to clause 4 of the Amended Preference Share Terms)
<b>Preference Shareholder</b>	a holder of Existing Preference Shares or the Amended Preference Shares, as the context requires
<b>Preference Shareholder Conversion Notice</b>	refers to a notice given in accordance with clause 3.2 of the Amended Preference Share Terms
<b>Probability of Sufficiency</b>	the estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. APRA's prudential standard GPS 210 requires general insurers to maintain a minimum probability of sufficiency of claims reserves of 75% for the purpose of assessing solvency under the <i>Insurance Act 1973</i> (Cwlth)
<b>Prospectus</b>	the prospectus under which the RES were issued, dated 29 November 2004, issued by the Issuer
<b>Proxy Form</b>	the proxy form accompanying this Explanatory Statement and the Notice of Meeting
<b>RACV</b>	Royal Automobile Club of Victoria (RACV) Limited (ABN 44 004 060 833)
<b>Rating Outlook</b>	an outlook that assesses the potential direction of a long-term Issuer 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. It is not necessarily a precursor of a rating change or future creditwatch action
<b>Realisation Date</b>	<ul style="list-style-type: none"> <li>• in respect of the Existing RES, the date on which the following can occur: <ul style="list-style-type: none"> <li>(a) a Redemption, as set out in clauses 4.2, 5.2 or 6.5 of the Existing RES Terms;</li> <li>(b) a Conversion, as set out in clauses 5.2 or 6.5 of the Existing RES Terms; or</li> <li>(c) an Exchange, the Preference Share Issue Date, as set out in clause 16.2 of the Existing RES Terms</li> </ul> </li> <li>• in respect of the Amended RES, the date on which the following can occur: <ul style="list-style-type: none"> <li>(a) a Redemption, as set out in clauses 5.2 or 6.4 of the Amended RES Terms;</li> <li>(b) a Conversion, as set out in clause 5.2 or 6.4 of the Amended RES Terms;</li> <li>(c) a Resale, as set out in clause 4.17, 5.2, or 6.4 of the Amended RES Terms; or</li> <li>(d) an Exchange, the Preference Share Issue Date, as set out in clause 16.2 of the Amended RES Terms</li> </ul> </li> </ul>

<b>Record Date</b>	<ul style="list-style-type: none"> <li>in relation to the Existing RES or Amended RES, refers to the date which is seven calendar days before an Interest Payment Date or the date before the payment of an Optional Interest payment, or such other date as may be determined by ASX as set out in: <ul style="list-style-type: none"> <li>(a) for the Existing RES, clause 16.2 of the Existing RES Terms; or</li> <li>(b) for the Amended RES, clause 16.2 of the Amended RES Terms</li> </ul> </li> <li>in relation to the Existing Preference Shares or Amended Preference Shares, refers to the date which is seven calendar days before a Dividend Payment Date or the date before the payment of an Optional Dividend payment, or such other date as may be determined by ASX as set out in: <ul style="list-style-type: none"> <li>(a) for the Existing Preference Shares, clause 9.2 of the Existing Preference Share Terms; or</li> <li>(b) for the Amended Preference Shares, clause 11.2 of the Amended Preference Share Terms</li> </ul> </li> </ul>
<b>Recoveries</b>	the amount of claims recovered from reinsurers, third parties or salvage
<b>Redeem</b>	<p>refers to the process through which:</p> <ul style="list-style-type: none"> <li>(a) the Existing RES are redeemed by the Issuer as set out in clause 4.1(a) of the Existing RES Terms;</li> <li>(b) the Existing Preference Shares are redeemed by IAG as set out in clause 3.1(a) of the Existing Preference Share Terms;</li> <li>(c) the Amended RES are redeemed by the Issuer as set out in clause 4.1(a) of the Amended RES Terms; or</li> <li>(d) the Amended Preference Shares are redeemed by IAG as set out in clause 3.1(a) of the Amended Preference Share Terms</li> </ul> <p><b>Redemption</b> and <b>Redeemed</b> have corresponding meanings</p>
<b>Redemption Amount</b>	<ul style="list-style-type: none"> <li>in respect of Existing RES, the amount payable to Redeem the Existing RES which is subject to the Distributable Portfolio Proceeds Amount; and</li> <li>in respect of Amended RES, \$100</li> </ul>
<b>Register</b>	the official register of Ordinary Shares, RPS1 and the Existing Preference Shares or Amended Preference Shares (if issued) maintained by IAG and the official register of the Existing RES or Amended RES maintained by the Issuer and includes any subregister established and maintained under CHESS
<b>Registry</b>	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registry that the Issuer and/or IAG appoint(s) to maintain the Register
<b>Regulatory Event</b>	<p>refers to certain events as set out in:</p> <ul style="list-style-type: none"> <li>(a) for the Existing RES, clause 16.2 of the Existing RES Terms;</li> <li>(b) for the Amended RES, clause 16.2 of the Amended RES Terms;</li> <li>(c) for the Existing Preference Shares, clause 9.2 of the Existing Preference Share Terms; or</li> <li>(d) for the Amended Preference Shares, clause 11.2 of the Amended Preference Share Terms</li> </ul>
<b>Reinsurance</b>	insurers pay premiums to other insurers (reinsurers) to spread their risk or cover major losses from specific events such as large hailstorms. This is called reinsurance
<b>RES Conversion Discount</b>	in respect of the Existing RES, 2.50%, unless changed according to clause 9 of the Existing RES Terms, as set out in clause 7.1 of the Existing RES Terms
<b>RES Holder</b>	a holder of Existing RES or the Amended RES, as the context requires
<b>RES Holder Conversion Notice</b>	refers to a notice given in accordance with clause 6.3 of the Amended RES Terms
<b>RES Holder Meeting</b>	the meeting of RES Holders convened by the Directors for the purposes of the RES Holders voting on the resolution set out in the Notice of Meeting
<b>RES Holder Meeting Date</b>	9 December 2009

<b>RES Margin</b>	<ul style="list-style-type: none"> <li>in respect of the Existing RES, 1.20%, as determined according to clause 3.1 of the Existing RES Terms</li> <li>in respect of the Amended RES, until the first Reset Date, 4.00% and after that as changed on any Reset Date according to clause 9 of the Amended RES Terms, as set out in clause 3.1 of the Amended RES Terms</li> </ul>
<b>Resale</b>	<p>refers to certain resale processes as set out in:</p> <ul style="list-style-type: none"> <li>(a) for the Existing RES clause 6.7 of the Existing RES Terms;</li> <li>(b) for the Amended RES clause 4.1(d) of the Amended RES Terms; or</li> <li>(c) for the Amended Preference Shares clause 3.1(c) of the Amended Preference Share Terms</li> </ul> <p><b>Resell</b> and <b>Resold</b> have corresponding meanings</p>
<b>Resale Price</b>	\$100
<b>Reset Date</b>	<ul style="list-style-type: none"> <li>in respect of the Existing RES the first Reset Date is 15 March 2010 and after that each subsequent Reset Date will occur on the fifth anniversary of the previous Reset Date unless changed in accordance with clause 9 of the Existing RES Terms, as set out in clause 16.2 of the Existing RES Terms</li> <li>in respect of the Amended RES, the first Reset Date is 16 December 2019 (or if that date is not a Business Day, the next succeeding Business Day) and each subsequent Reset Date will occur on the first Business Day that is 10 years after the previous Reset Date unless changed according to clause 9 of the Amended RES Terms as set out in clause 16.2 of the Amended RES Terms</li> </ul>
<b>Residual Tier 1 Capital</b>	residual tier 1 capital as defined by APRA
<b>RPS1</b>	the \$350,000,000 reset preference shares issued by IAG according to a prospectus dated 6 May 2002
<b>Service Provider</b>	the Registry in respect of the Amended RES
<b>Shareholders' Funds</b>	the investment portfolio of assets held in excess of the amount backing Technical Reserves, representing shareholders' equity not used in day to day operations
<b>Special Resolution</b>	a resolution passed at a separate meeting of RES Holders or Preference Shareholders by at least 75% of the votes validly cast by RES Holders or Preference Shareholders (as applicable) in person or by proxy and entitled to vote on the resolution
<b>Step-Up Date</b>	has the meaning in clause 9.2 of the Existing Preference Share Terms
<b>Swann Insurance</b>	Swann Insurance (Aust) Pty Ltd (ABN 80 000 886 680)
<b>S&amp;P</b>	Standard & Poor's (Australia) Pty Ltd (ABN 62 007 324 852)
<b>Tax Act</b>	<p>means:</p> <ul style="list-style-type: none"> <li>(a) the Income Tax Assessment Act 1936 (Cwlth) or the Income Tax Assessment Act 1997 (Cwlth) as the case may be, and a reference to any section of the Income Tax Assessment Act 1936 (Cwlth) includes a reference to that section as rewritten in the Income Tax Assessment Act 1997 (Cwlth); and</li> <li>(b) any other Act setting the rate of income tax payable and any regulation promulgated under it</li> </ul>
<b>Tax Event</b>	<p>refers to certain events as set out in:</p> <ul style="list-style-type: none"> <li>(a) for the Existing RES, clause 16.2 of the Existing RES Terms;</li> <li>(b) for the Existing Preference Shares, clause 9.2 of the Existing Preference Share Terms;</li> <li>(c) for the Amended RES, clause 16.2 of the Amended RES Terms; or</li> <li>(d) for the Amended Preference Shares, clause 11.2 of the Amended Preference Share Terms</li> </ul>
<b>Tax Rate</b>	the Australian corporate tax rate applicable to IAG's franking account at the relevant Interest Payment Date or Dividend Payment Date. As at the date of this Explanatory Statement, 30% (expressed as a decimal)

# A GLOSSARY

<b>Taxation Letter</b>	the taxation letter from Mallesons Stephen Jaques dated 23 October 2009 in Section 5
<b>Technical Reserves</b>	the investments held to back provisions for outstanding claims (including incurred but not reported and incurred but not enough reported) and Unearned Premium, net of Recoveries and premium debtors
<b>Tier 1 Capital</b>	tier 1 capital as defined by APRA
<b>Tier 2 Capital</b>	tier 2 capital as defined by APRA
<b>Transaction Documents</b>	the Trust Deed and any other document entered into in connection with it
<b>Trigger Event</b>	refers to the occurrence of certain events as set out in clause 6.2 of the Existing RES Terms
<b>Trust Deed</b>	the trust deed as amended and restated between the Issuer, IAG, IAG Portfolio and the Trustee as summarised in Section 7.2
<b>Trustee</b>	Trust Company Fiduciary Services Limited (formerly known as Permanent Trustee Company Limited) (ABN 21 000 000 993)
<b>Underwriting</b>	the process of examining, accepting or rejecting insurance risk, and classifying those risks accepted, in order to charge an appropriate premium for each accepted risk
<b>Underwriting Expenses</b>	those expenses incurred as a result of Underwriting activities, including risk assessment, commission expenses and other acquisition expenses
<b>Underwriting Result</b>	Net Earned Premium less Net Claims Expense less Underwriting Expenses
<b>Unearned Premium</b>	premium applicable to the unexpired portion of a policy's earned premium liability. Premium that has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods
<b>Upper Tier 2 Capital</b>	upper tier 2 capital as defined by APRA
<b>VWAP</b>	the average of the daily volume weighted average sale prices of Ordinary Shares sold on ASX during the relevant period as defined in relation to Conversion in the Existing RES Terms, Amended RES Terms, Existing Preference Share Terms and the Amended Preference Share Terms
<b>Winding-Up Event</b>	refers to an order being made, or an effective resolution being passed, for the winding-up of a party which is not revoked or set aside within 30 Business Days of such order being made or resolution passed, as set out in clause 16.2 of the Existing RES Terms