

# COMPARING EXISTING RES WITH AMENDED RES AND EXISTING PREFERENCE SHARES WITH AMENDED PREFERENCE SHARES

You are invited to consider and vote on a proposal to amend the Existing RES Terms and Existing Preference Share Terms. The tables below compare the key features of the Existing RES with the Amended RES and the key features of the Existing Preference Shares with the Amended Preference Shares. These comparisons are not intended to be exhaustive and you should review the Amended RES Terms, showing all changes compared to the Existing RES Terms, which are set out in full in Appendix B and the Amended Preference Share Terms, showing all changes compared to the Existing Preference Share Terms, which are set out in full in Appendix C.

## COMPARING EXISTING RES WITH AMENDED RES

Dark blue shading represents amended terms

Feature	Existing RES	Amended RES
<b>Legal form</b>	Existing RES are unsecured notes for the purposes of section 283BH of the Corporations Act.  The Issuer's obligations are secured over the Portfolio for the benefit of RES Holders	Amended RES are unsecured notes for the purposes of section 283BH of the Corporations Act.  The Issuer's obligations are not secured by recourse to any assets and are subordinated to all creditors of the Issuer
<b>Issuer</b>	IAG Finance (New Zealand) Limited, through its New Zealand branch	IAG Finance (New Zealand) Limited, through its New Zealand branch
<b>Issue Credit Rating</b>	"A-" by S&P	"A-" by S&P <sup>1</sup>
<b>ASX quotation</b>	Quoted on ASX under the code "IANG"	Continue to be quoted on ASX
<b>Regulatory capital characterisation</b>	Existing RES do not qualify as regulatory capital	Amended RES will qualify as Innovative Tier 1 Capital on a Level 2 basis for regulatory purposes. See Section 1.1.4 for further details on the regulatory capital treatment of Amended RES
<b>Term</b>	Perpetual	Perpetual
<b>Ranking</b>	Unsubordinated and on a winding-up of the Issuer, Existing RES will be Redeemed automatically for the Redemption Amount	Subordinated and on a winding-up of the Issuer, Amended RES will be Exchanged automatically into Amended Preference Shares
<b>Face Value</b>	\$100	\$100
<b>Interest Payments</b>	Franked, quarterly, non-cumulative, floating, based on three-month Bank Bill Rate and subject to the Interest Payment Tests described below	Franked, quarterly, non-cumulative, floating, based on three-month Bank Bill Rate and subject to the amended Interest Payment Tests described below
<b>Interest Rate</b>	Three-month Bank Bill Rate + RES Margin x (1 – Tax Rate)	Three-month Bank Bill Rate + RES Margin x (1 – Tax Rate)
<b>Franking gross up</b>	Yes	Yes
<b>RES Margin</b>	Currently 1.20% per annum	4.00% per annum
<b>Source of Interest Payments</b>	The Portfolio. The Portfolio is managed by IAG Asset Management Limited and RES Holders have a security interest over the Portfolio	The Issuer. The Portfolio will not be a feature of the Amended RES. See Section 1.4 for further details on the removal of the Portfolio
<b>Interest Payment Tests</b>	Sufficient Distributable Portfolio Income Amount and the IAG Profits Test	The Directors not having passed a resolution not to pay and the absence of an APRA Condition. See Section 1.3.6 for further details on the APRA Conditions

<sup>1</sup> S&P has indicated the Amended RES will retain the current "A-" S&P credit rating

Feature	Existing RES	Amended RES
<b>Distribution restrictions on other IAG securities for non-payment</b>	Yes, if Interest Payments are not made because of IAG Profits Test	Yes, if Interest Payments are not made. See Section 1.3.8 for further details on the distribution restrictions
<b>Reset provisions</b>	On any Reset Date the Issuer can reset: <ul style="list-style-type: none"> <li>the next Reset Date;</li> <li>the RES Margin for each succeeding Interest Period until the next Reset Date; and</li> <li>the RES Conversion Discount</li> </ul>	On any Reset Date, the Issuer can reset the RES Margin. See Sections 1.3.9 and 1.6 for further details on the resetting of the RES Margin
<b>Initial Reset Date</b>	15 March 2010	16 December 2019
<b>Exchange</b>	Yes, into Existing Preference Shares in respect of some or all Existing RES at IAG's discretion at any time, subject to certain restrictions	Yes, into Amended Preference Shares in respect of all Amended RES: <ul style="list-style-type: none"> <li>mandatorily if an Exchange Event occurs; or</li> <li>at the option of IAG at any time.</li> </ul> See Section 1.7.2 for further details on Exchange Events
<b>RES Holder request</b>	A RES Holder can request Redemption for some or all of its Existing RES: <ul style="list-style-type: none"> <li>on any Reset Date; or</li> <li>at any time, if a Trigger Event occurs</li> </ul>	A RES Holder can request Conversion for some or all of its Amended RES: <ul style="list-style-type: none"> <li>on any Reset Date; or</li> <li>following the occurrence of an Acquisition Event.</li> </ul> See Section 1.8 for further details on RES Holder rights to request Conversion
<b>Issuer response to RES Holder request</b>	Redemption, Conversion or Resale at the Issuer's discretion	Redemption, Conversion or Resale at the Issuer's discretion
<b>Issuer Redemption, Conversion or Resale</b>	The Issuer may Redeem or Convert: <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>	The Issuer may Redeem, Convert or Resell: <ul style="list-style-type: none"> <li>all or some Amended RES on any Reset Date;</li> <li>all or some Amended RES at any time, if a Tax Event or a Regulatory Event has occurred;</li> <li>all or some Amended RES at any time, if a Potential Acquisition Event or an Acquisition Event has occurred; or</li> <li>all (but not some only) Amended RES at any time, if there are less than one million Amended RES on issue.</li> </ul> The Issuer may only Redeem Amended RES with the prior written approval of APRA. See Section 1.9.1 for further detail on the difference between an Acquisition Event and a Potential Acquisition Event and amendments to the definition of Regulatory Event
<b>Number of Ordinary Shares on Conversion calculated as</b>	$\frac{\text{Redemption Amount}}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$	$\frac{\text{Redemption Amount}}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$
<b>Redemption Amount</b>	\$100, subject to the Distributable Portfolio Proceeds Amount	\$100

## COMPARING EXISTING PREFERENCE SHARES WITH THE AMENDED PREFERENCE SHARES

Existing RES and Amended RES will be Exchanged into Existing Preference Shares or Amended Preference Shares (as applicable) in certain circumstances. The following table compares the key features of the Existing Preference Shares and Amended Preference Shares.

Dark blue shading represents amended terms

Feature	Existing Preference Share	Amended Preference Share
<b>Legal form</b>	Preference share	Preference share
<b>Issuer</b>	Insurance Australia Group Limited	Insurance Australia Group Limited
<b>Issue Credit Rating</b>	“A–” by S&P <sup>1</sup>	“A–” by S&P <sup>1</sup>
<b>ASX quotation</b>	Continue to be quoted on ASX	Continue to be quoted on ASX
<b>Regulatory capital characterisation</b>	If issued, Existing Preference Shares will qualify as Innovative Tier 1 Capital on a Level 2 basis for regulatory purposes	If issued, Amended Preference Shares will qualify as Innovative Tier 1 Capital on a Level 2 basis for regulatory purposes
<b>Ranking</b>	Behind all creditors, equally with existing preference shareholders of IAG and in priority to Ordinary Shareholders	Behind all creditors and policyholders, equally with existing preference shareholders of IAG and in priority to Ordinary Shareholders. IAG may issue preference shares ranking in priority to the Amended Preference Shares
<b>Dividends</b>	Franked, quarterly, non-cumulative, floating, based on three-month Bank Bill Rate and subject to the Dividend Payment Tests described below	Franked, quarterly, non-cumulative, floating, based on three-month Bank Bill Rate and subject to the amended Dividend Payment Tests described below
<b>Dividend Rate</b>	Three-month Bank Bill Rate + Preference Share Margin x (1 – Tax Rate)	Three-month Bank Bill Rate + Preference Share Margin x (1 – Tax Rate)
<b>Franking gross up</b>	Yes	Yes
<b>Preference Share Margin</b>	Initially, the RES Margin at the time of Exchange. See the step-up provisions below	Initially, the RES Margin at the time of Exchange. See the reset provisions below
<b>Source of Dividends</b>	IAG	IAG
<b>Dividend Payment Tests</b>	Each Dividend is subject to: <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 the Group breaching APRA’s capital adequacy guidelines;</li> <li>the Distributable Profits Test being passed; and</li> <li>APRA not otherwise objecting to the Dividend being paid</li> </ul>	The IAG Directors passing a resolution to pay and the absence of an APRA Condition. See Section 1.3.6 for further details on the APRA Conditions
<b>Distribution restrictions on other IAG securities for non-payment</b>	Yes	Yes, no material change is proposed. See Section 1.3.8 for further details on the distribution restrictions
<b>Reset provisions</b>	No	On any Reset Date, IAG can reset the Preference Share Margin. See Sections 1.3.9 and 1.6 for further details on the resetting of the Preference Share Margin

<sup>1</sup> S&P has indicated that they will rate the Existing Preference Shares and the Amended Preference Shares “A–” if issued

Feature	Existing Preference Share	Amended Preference Share
<b>Initial Reset Date</b>	N/A	16 December 2019
<b>Step-up provisions</b>	One time step-up of 1.00% at the Step-Up Date	No
<b>Step-up Date</b>	Dividend Payment Date, 10 years after the Preference Share Issue Date	N/A
<b>Preference Shareholder request</b>	A Preference Shareholder has no right to request either Redemption or Conversion	<p>A Preference Shareholder can request Conversion for some or all of its Amended Preference Shares:</p> <ul style="list-style-type: none"> <li>on any Reset Date; or</li> <li>following the occurrence of an Acquisition Event.</li> </ul> <p>See Section 1.8 for further details on Preference Shareholder rights to request Conversion</p>
<b>IAG response to Preference Shareholder request</b>	N/A	Redemption, Conversion or Resale at IAG's discretion
<b>IAG Redemption, Conversion or Resale</b>	<p>IAG may Redeem or Convert:</p> <ul style="list-style-type: none"> <li>all or some Existing Preference Shares at any time, if a Tax Event or a Regulatory Event has occurred;</li> <li>all (but not some only) Existing Preference Shares at any time, if there are less than one million Existing Preference Shares on issue;</li> <li>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</li> <li>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</li> </ul>	<p>IAG may Redeem, Convert or Resell:</p> <ul style="list-style-type: none"> <li>all or some Amended Preference Shares at any time, if a Tax Event or a Regulatory Event has occurred;</li> <li>all (but not some only) Amended Preference Shares at any time, if there are less than one million Amended Preference Shares on issue;</li> <li>in respect of all (but not some only) Amended Preference Shares, if a Potential Acquisition Event or an Acquisition Event occurs whether or not the event occurred prior to the Preference Share Issue Date; or</li> <li>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.</li> </ul> <p>The Issuer may only Redeem Amended Preference Shares with the prior written approval of APRA. See Section 1.9.1 for further details on the difference between an Acquisition Event and a Potential Acquisition Event and amendments to the definition of Regulatory Event</p>
<b>Number of Ordinary Shares on Conversion calculated as</b>	$\frac{\text{Preference Share Issue Price}}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$	$\frac{\$100}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$
<b>Preference Share Issue Price</b>	The Redemption Amount of the Existing RES at the time of Exchange (which may be less than \$100 in certain circumstances)	The obligation to transfer the Amended RES to IAG (this will be automatically satisfied upon an Exchange occurring)
<b>Preference Share redemption amount</b>	The Preference Share Issue Price	\$100
<b>Voting rights</b>	As per ASX Listing Rule 6.3	As per ASX Listing Rule 6.3

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## ANSWERS TO KEY QUESTIONS

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

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