

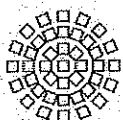
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## **Module 3 Readings**

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3-4 IAG RES Product Disclosure Statement, November 2004, pp. 4-7

# Offer



## Reset Exchangeable Securities...

This Prospectus describes the Offer of RES. The Issuer intends to issue up to five million RES, at an Issue Price of \$100 each to raise up to \$500 million – with the ability to accept oversubscriptions for up to \$50 million. The minimum Application is 50 RES (\$5,000).

The Group currently has sufficient Tier 1 Capital. This is the reason why the IAG Directors did not choose to issue a security like Preference Shares now.

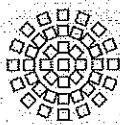
The gross proceeds of the Offer will, through a series of intra-group arrangements, be invested by a wholly-owned subsidiary of IAG in a portfolio of high quality, short-dated, fixed interest securities (Portfolio). The Issuer's obligations to RES Holders are secured by the Portfolio and Interest Payments and Redemption Amounts will depend on the performance and the creditworthiness of this Portfolio.

In this Prospectus, certain information that is specific to RES has been highlighted with a yellow background and certain information that is specific to Preference Shares has been highlighted with a green background.

## Reset Exchangeable Securities – issued by IAG Finance (NZ)

- **Floating rate Interest Payments**
  - Interest Payments are non-cumulative, based on a floating rate, and are expected to be fully franked
  - Interest Payments are payable quarterly and are subject to Interest Payment Tests
  - the Interest Rate for the first Interest Payment Date will be at least 4.55% – 4.76% per annum fully franked (which is equivalent to a grossed-up Interest Rate of at least 6.50% – 6.80% per annum)
- **Depend on Portfolio performance and creditworthiness**
  - Interest Payments and the Redemption Amount will depend on the performance and creditworthiness of the Portfolio, which will be managed by IAG Asset Management Limited
  - The Portfolio has an Australian Bond Fund Rating of 'AAA' by S&P<sup>1</sup>. According to S&P, funds rated 'AAA' have extremely strong protection against losses from credit default
  - 'AAA' is the highest Australian Bond Fund Rating assigned by S&P
- **Reset provisions**
  - certain terms of RES may be changed by the Issuer on 15 March 2010 and any Reset Date after that
- **Exchangeable**
  - for Preference Shares at any time by IAG
- **Redeemable and Convertible**
  - on Reset Dates or when specified events occur:
    - RES Holders can request redemption of RES; or
    - the Issuer can Redeem for cash or Convert RES into Ordinary Shares
- **Quoted on ASX**
  - the Issuer will apply to quote RES on ASX within seven days after the date of this Prospectus
- **Issue Credit Rating<sup>1</sup>**
  - RES are rated 'A-' by S&P<sup>1</sup>

Note: <sup>1</sup> Any Issuer Credit Rating of 'BBB-' or higher from S&P is currently considered to be 'investment grade' – see Section 6.5 for the Group's credit ratings and Section 7.3.8 for investment risks associated with credit ratings.



## ...Preference Shares

At any time, IAG may exercise its Exchange Right to Exchange some or all RES for Preference Shares issued by IAG. The Preference Shares, if issued, are expected to qualify as regulatory Tier 1 Capital.

**IF IAG  
EXERCISES  
ITS EXCHANGE  
RIGHT**

### Preference Shares – issued by IAG

- **Floating rate step-up Dividends**
  - Dividends are non-cumulative, based on a floating rate, and are expected to be fully franked
  - Dividends are payable quarterly and are subject to Dividend Payment Tests
  - the Dividend Rate will be calculated in a similar manner to the Interest Rate on RES
  - if Preference Shares are not Redeemed or Converted by the first Dividend Payment Date after the ten year anniversary of the Preference Share Issue Date (Step-Up Date), then the Preference Share Initial Margin will increase by a one time step-up of 1.00% per annum
- **Redeemable and Convertible**
  - on the Step-Up Date (or any Dividend Payment Date after that) or in certain other limited circumstances, IAG can:
    - Redeem Preference Shares for cash (subject to APRA approval); or
    - Convert Preference Shares into Ordinary Shares
- **Quoted on ASX**
  - if the Preference Shares are issued, IAG will apply to quote them on ASX
- **Issue Credit Rating<sup>1</sup>**
  - Preference Shares are expected to have the same rating as RPS1 and RPS2, which are currently rated 'A-' by S&P
- **Ranking**
  - Preference Shares are expected to rank equally with RPS1 and RPS2

# Comparing RES...

RES being offered according to this Prospectus are reset securities which may be Exchanged into Preference Shares in IAG. Although both of these securities are similar to IAG's RPS1 and RPS2, there are some ways in which they are different. The table on these two pages gives you a snapshot of the similarities and differences and is not exhaustive.

<b>Feature</b>	<b>RES – the security being offered according to this Prospectus</b>
<b>Legal form</b>	Unsecured note <sup>1</sup> . The Issuer's obligations are secured over the Portfolio for the benefit of RES Holders.
<b>Issuer</b>	IAG Finance (NZ), through its New Zealand branch
<b>Issue Credit Rating<sup>2</sup></b>	'A-' by S&P
<b>Quotation on ASX</b>	Intended
<b>Issue date</b>	Expected to be 11 January 2005
<b>Maturity</b>	Perpetual
<b>Distribution</b>	Interest
<b>Non-cumulative</b>	Yes
<b>Expected to be fully franked</b>	Yes
<b>Distribution rate</b>	(market rate + margin) x (1 – Tax Rate)
<b>Market rate</b>	Floating rate based on 90 day Bank Bill Rate – payable quarterly in arrears
<b>Margin</b>	RES Initial Margin 1.00% – 1.30% per annum, determined through the Bookbuild (and after that as changed on a Reset Date)
<b>Distribution source</b>	Portfolio – from where Interest Payments will be sourced. The Portfolio will be managed by IAG AM and RES Holders have a security interest in the Portfolio
<b>Distribution tests</b>	Sufficient Net Portfolio Income per RES and the IAG Profits Test
<b>Step-Up Date – on which the margin increases once only</b>	Not applicable
<b>Step-up margin increase</b>	Not applicable
<b>Reset provisions</b>	Yes
<b>First Reset Date</b>	15 March 2010
<b>Exchange into Preference Shares</b>	Yes, at IAG's discretion at any time
<b>Issuer redemption or conversion</b>	On a Reset Date and in other circumstances, including a Regulatory Event or Tax Event, the Issuer at its discretion may: <ul style="list-style-type: none"> <li>• Redeem for cash, or</li> <li>• Convert into Ordinary Shares</li> </ul>
<b> Holders can request redemption</b>	On a Reset Date or Trigger Event
<b>Number of Ordinary Shares on conversion calculated as</b>	$\frac{\text{Redemption Amount}}{\text{WVAP} \times (1 - \text{RES Conversion Discount of } 2.50\%)}^3$
<b>Ranking in liquidation</b>	Redemption Amount secured over the Portfolio
<b>Qualifying Tier 1 Capital under APRA guidelines</b>	No

**Notes:**

- 1 RES are unsecured notes for the purposes of section 283BH of the Corporations Act and are limited recourse debt obligations of the Issuer secured over the Portfolio for the benefit of RES Holders.
- 2 Any Issuer Credit Rating of 'BBB-' or higher from S&P is currently considered to be 'investment grade' – see Section 6.5 for the Group's credit ratings and Section 7.3.8 for investment risks associated with credit ratings.

# ...to RPS1 and RPS2 and Preference Shares

You can read: the key terms of RES and Preference Shares in Section 1; a question and answer summary in Section 2; the RES Terms in Appendix B; and the Preference Share Terms in Appendix C.

<b>RPS1 and RPS2 – currently issued and quoted on ASX</b>	<b>Preference Shares – for which RES may be Exchanged by IAG</b>
Preference share	Preference share
IAG	IAG
'A-' by S&P	Preference Shares are expected to have the same S&P rating as RPS1 and RPS2, which is currently 'A-' by S&P
Yes	Intended
4 June 2002 and 20 June 2003, respectively	Preference Shares Issue Date upon Exchange of RES
Perpetual	Perpetual
Dividend	Dividend
Yes	Yes
Yes	Yes
(market rate + margin) x (1 – tax rate)	(market rate + margin) x (1 – tax rate)
Fixed rate based on five year swap rate – payable semi-annually in arrears	Floating rate based on 90 day Bank Bill Rate – payable quarterly in arrears
1.90% and 1.60% per annum, respectively	Same as RES Margin at Preference Share Issue Date until the Step-Up Date, then a one time step-up of 1.00% per annum
IAG	IAG
Dividend payment tests (IAG and APRA)	Dividend Payment Tests (IAG and APRA)
Not applicable	Dividend Payment Date ten years after the Preference Share Issue Date
Not applicable	One time step-up of 1.00% at the Step-Up Date
Yes	No
15 June 2007 and 15 June 2008, respectively	Not applicable
Not applicable	Not applicable
On a reset date or if certain events occur including a regulatory event or tax event, IAG, at its discretion may: <ul style="list-style-type: none"> <li>• redeem for cash (subject to APRA approval)<sup>3</sup>; or</li> <li>• convert into Ordinary Shares</li> </ul>	On the Step-Up Date, any Dividend Payment Date after that date and in other limited circumstances, including a Regulatory Event or Tax Event, IAG, at its discretion, may: <ul style="list-style-type: none"> <li>• Redeem for cash (subject to APRA approval); or</li> <li>• Convert into Ordinary Shares</li> </ul>
IAG may elect to redeem (subject to APRA approval), convert or resell RPS1 or RPS2 on holder request for redemption on a reset date or trigger event	No
\$100	Preference Share Issue Price
$WVAP \times (1 - \text{conversion discount})^3$	$WVAP \times (1 - \text{Preference Share Conversion Discount})^4$
Pro rata with preference shares	Pro rata with preference shares
Yes	Yes

Notes: (continued)

<sup>3</sup> May be changed by the Issuer on a reset date.

<sup>4</sup> The RES Conversion Discount on the Preference Share Issue Date.