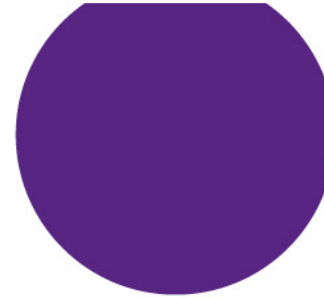




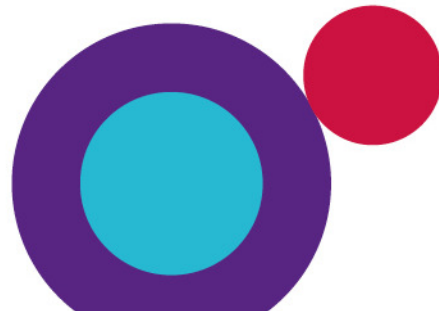
November 2016



# Insurance Australia Group Limited Capital Notes Offer (and CPS Reinvestment Offer)

This presentation is not an offer of, or invitation to apply for, Capital Notes and applications for Capital Notes are to be made under the Prospectus. Investors should read and consider the Prospectus in full before deciding whether to invest in the Capital Notes.

The Capital Notes are complex and involve more risks than simple debt or ordinary equity instruments. They are not suitable for all investors and contain features which may make the Capital Notes Terms difficult to understand. IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser before deciding whether to apply to participate in the Offer.



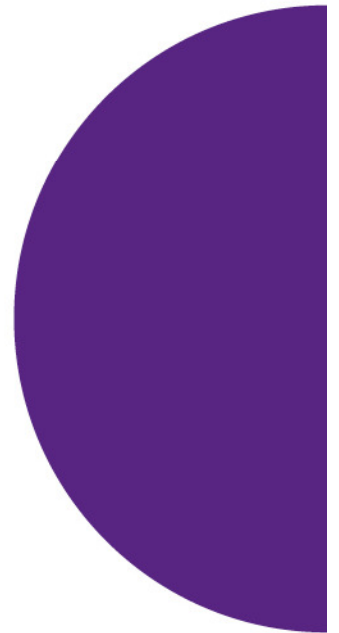
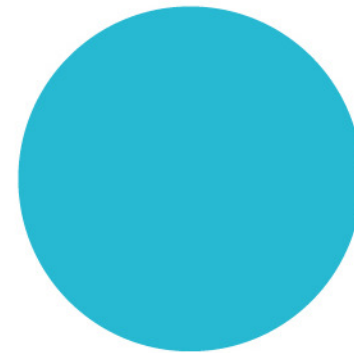
# Contents

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## Group Overview and Offer Summary



# Group overview

## General insurance group listed on ASX

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- An ASX-listed general insurance group (Group) offering personal and commercial insurance products through:
  - Leading and established brands across its home markets of Australia and New Zealand
  - A presence in Asia
- Gross written premium (GWP) over \$11 billion in the financial year ending 30 June 2016
- Employs over 15,000 people
- ASX Top 25 company with a market capitalisation of c.\$13 billion
- Regulated by Australian Prudential Regulation Authority (APRA)
- Strategic relationship with Berkshire Hathaway
- IAG issued NZ\$350 million subordinated notes to investors in New Zealand in June 2016
- IAG bought back \$314 million ordinary equity in October 2016



# IAG Capital Notes

## Offer summary

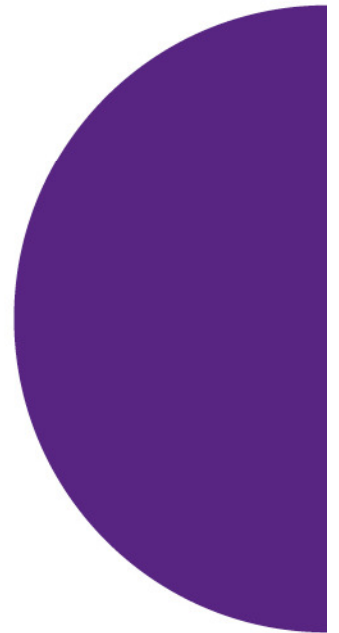
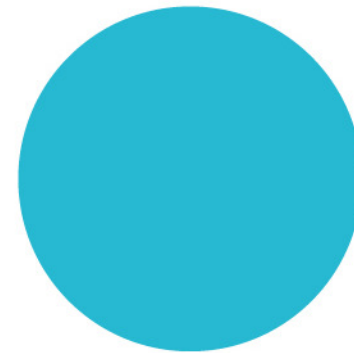
<b>Offer</b>	<ul style="list-style-type: none"><li>• Offer by Insurance Australia Group Limited (IAG) of Capital Notes</li></ul>
<b>Offer size</b>	<ul style="list-style-type: none"><li>• \$300 million with the ability to raise more or less</li></ul>
<b>Term</b>	<ul style="list-style-type: none"><li>• Perpetual unless Converted, Redeemed, Resold or Written-Off</li><li>• Optional Exchange on 15 June 2023 or following a Tax Event or Regulatory Event, or optional Conversion following a Potential Acquisition Event (in all cases subject to certain conditions being met)</li><li>• Mandatory Conversion on 16 June 2025 or following an Acquisition Event (in both cases subject to certain conditions being met)</li><li>• Mandatory Conversion or Write-Off following a Non-Viability Trigger Event</li></ul>
<b>Distributions</b>	<ul style="list-style-type: none"><li>• Discretionary, non-cumulative distributions scheduled to be paid quarterly based on a floating rate (3 month Bank Bill Rate) subject to conditions and distributions are expected to be fully franked</li><li>• Margin expected to be in the range of 4.70% to 4.90% per annum</li></ul>
<b>Ranking<sup>1</sup></b>	<ul style="list-style-type: none"><li>• In a Winding-up of IAG, Capital Notes rank:<ul style="list-style-type: none"><li>– ahead of Ordinary Shares</li><li>– equally among themselves and any other equal ranking instruments</li><li>– behind all Senior Ranking Creditors of IAG</li></ul></li></ul>
<b>Purpose</b>	<ul style="list-style-type: none"><li>• The Offer is to raise Additional Tier 1 Capital as part of IAG's capital management strategy</li><li>• IAG will use the proceeds of the Offer to refinance some Convertible Preference Shares issued in 2012 (CPS) and for general corporate purposes</li></ul>
<b>Offer structure</b>	<ul style="list-style-type: none"><li>• The Offer comprises:<ul style="list-style-type: none"><li>– an Institutional Offer made to Institutional Investors</li><li>– a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers, and</li><li>– a Reinvestment Offer made to Eligible CPS Holders (ASX: IAGPC)</li></ul></li><li>• Record date for determining Eligible CPS Holders – 7:00pm Sydney time on 18 November 2016</li></ul>
<b>Listing</b>	<ul style="list-style-type: none"><li>• Capital Notes are expected to trade under ASX code "IAGPD"</li></ul>

1. If, following a Non-Viability Trigger Event, Capital Notes are Converted into Ordinary Shares, Capital Note Holders will have claims as Ordinary Shareholders. If, following a Non-Viability Trigger Event, Capital Notes are Written-Off, those Capital Notes will never be Exchanged, all rights in relation to those Capital Notes will be terminated and Capital Note Holders will not have their capital repaid.





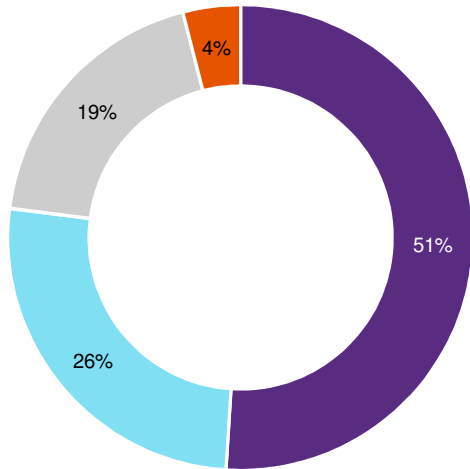
# IAG and FY16 Results



# The Group and what it does

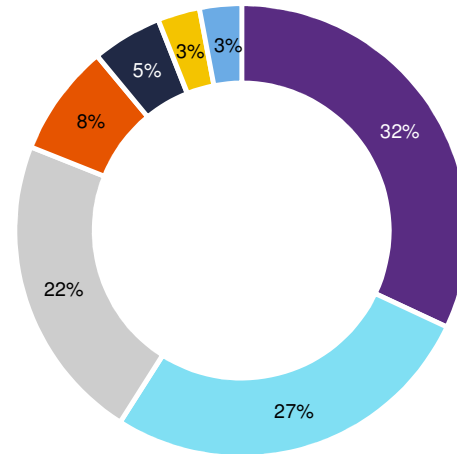
## Geographical presence and portfolio of products

**GROUP GEOGRAPHIC PRESENCE**  
% of GWP for FY16



- Australia - Consumer
- Australia - Business
- New Zealand
- Asia

**GROUP PRODUCT PORTFOLIO**  
% of GWP for FY16



- Motor
- Short-tail Commercial
- Liability
- Workers' Comp
- Home
- CTP/Motor liability
- Other Short-tail

# Operating brands

More than 90% of GWP from home markets (Australia & New Zealand)



Ownership details are available at [www.iag.com.au/about-us/what-we-do](http://www.iag.com.au/about-us/what-we-do)





# Berkshire Hathaway

## Strategic relationship established June 2015

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- A long-term strategic relationship established with Berkshire Hathaway Inc, one of the world's largest and most successful companies
- Enables both parties to draw on each other's strengths to better meet customer needs and deliver superior business outcomes
- Strengthens existing relationship and harnesses complementary capabilities of both companies
- Initial 10-year 20% quota share agreement across IAG's consolidated insurance business reduces IAG's earnings volatility and capital requirements
- Berkshire Hathaway acquired a 3.7% stake (at that time) in IAG via a \$500 million placement in June 2015



# Group financial summary – FY16

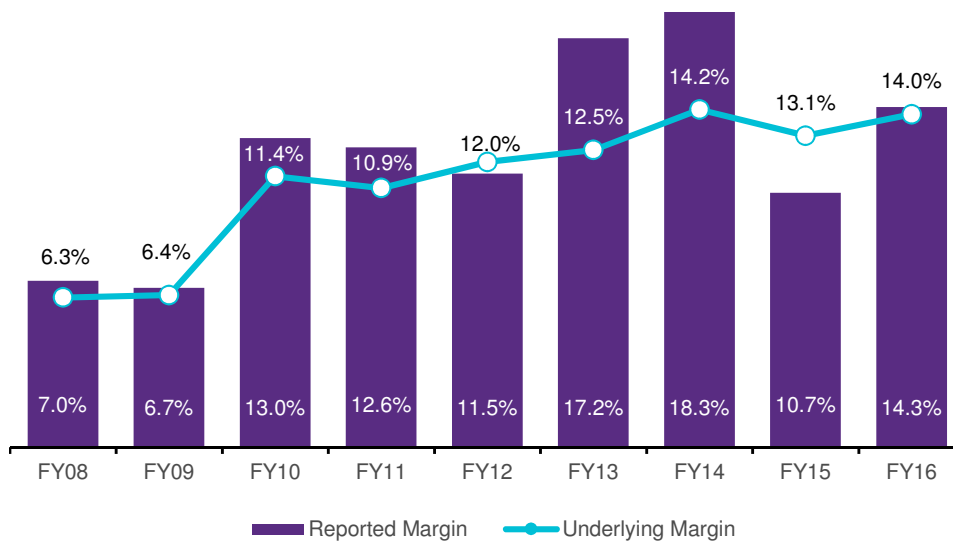
Cash ROE of 13.0%

	FY15	FY16	CHANGE
GWP (\$M)	11,440	11,367	↓ 0.6%
INSURANCE PROFIT (\$M)	1,103	1,178	↑ 6.8%
UNDERLYING MARGIN (%)	13.1	14.0	↑ 90bps
REPORTED MARGIN (%)	10.7	14.3	↑ 360bps
SHAREHOLDERS' FUNDS INCOME (\$M)	223	97	↓ 56.5%
NET PROFIT AFTER TAX (\$M)	728	625	↓ 14.1%
CASH EARNINGS (\$M)	987	867	↓ 12.2%
ORDINARY DIVIDEND (CPS)	29.0	26.0	↓ 10.3%
SPECIAL DIVIDEND (CPS)	n/a	10.0	n/a
TOTAL DIVIDEND (CPS)	29.0	36.0	↑ 24.1%
CASH ROE (%)	15.3	13.0	↓ 230bps
PCA MULTIPLE	1.70	1.72	↑ 2bps

# Underlying insurance margin

Quota share uplift of c.250bps

INSURANCE MARGIN (REPORTED VS. UNDERLYING)



- Underlying margin of 14.0% (2H16: 13.7%)
- Favourable Berkshire Hathaway quota share effect of approximately 250bps
- Pressure on commercial lines in soft market environment
- Elevated frequency continues to impact NSW CTP profitability
- Strong returns in short-tail personal lines, despite increase in claim frequency
- Lower like-for-like reinsurance costs in soft market conditions
- Reduction in expenses—benefits from Wesfarmers integration and revised operating model

# Group results

## Divisional performance

DIVISION	FY15				FY16			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
	A\$m	%	%	%	A\$m	%	%	%
Consumer Division	5,614	5.2	15.9	13.9	5,801	3.3	19.8	16.0
Business Division	3,192	40.7	3.0	10.5	2,979	(6.7)	10.0	9.7
New Zealand	2,267	22.8	10.8	15.9	2,182	(3.7)	8.6	16.9
Asia	353	11.4	nm	nm	386	9.3	nm	nm
Corporate & Other	14	nm	nm	nm	19	nm	nm	nm
<b>Total Group</b>	<b>11,440</b>	<b>17.0</b>	<b>10.7</b>	<b>13.1</b>	<b>11,367</b>	<b>(0.6)</b>	<b>14.3</b>	<b>14.0</b>

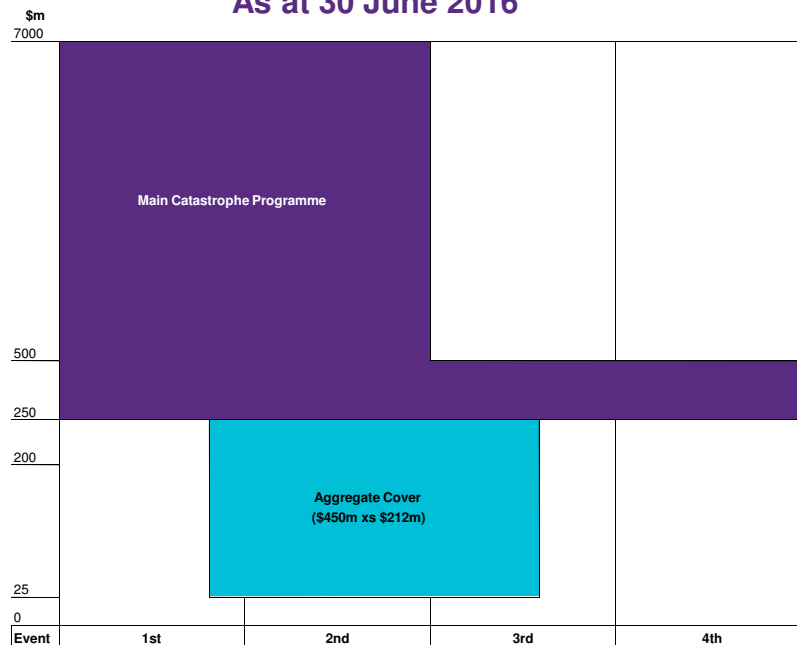
Source: IAG Investor Report FY16



# Reinsurance

## Key element of approach to capital management

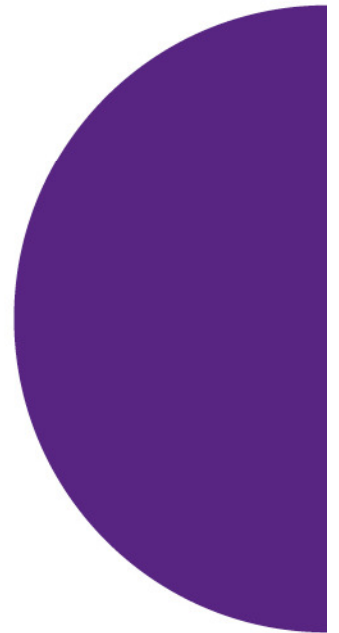
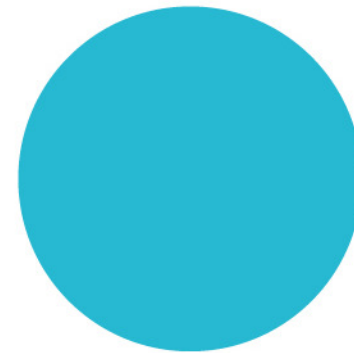
### 2016 CATASTROPHE REINSURANCE PROGRAMME As at 30 June 2016



- Calendar 2016 catastrophe cover:
  - \$7 billion of gross protection, placed to 80% (to reflect quota share)
  - Maximum Event Retention (MER) of \$200 million (post quota share)
  - For New Zealand, all amounts itemised above in respect of the catastrophe programme are denominated in NZ\$
- Although the gross cost from the recent trans-Tasman storm and New Zealand earthquake events is still uncertain, it is anticipated that a net cost of ~ \$200 million will be incurred
- Based on a maximum combined cost of \$200 million, the Group's MER becomes \$20 million in Australia and NZ\$20 million in New Zealand until 31 December 2016
- The Group continues to expect its FY17 net natural peril claim cost will be in line with its \$680m allowance.

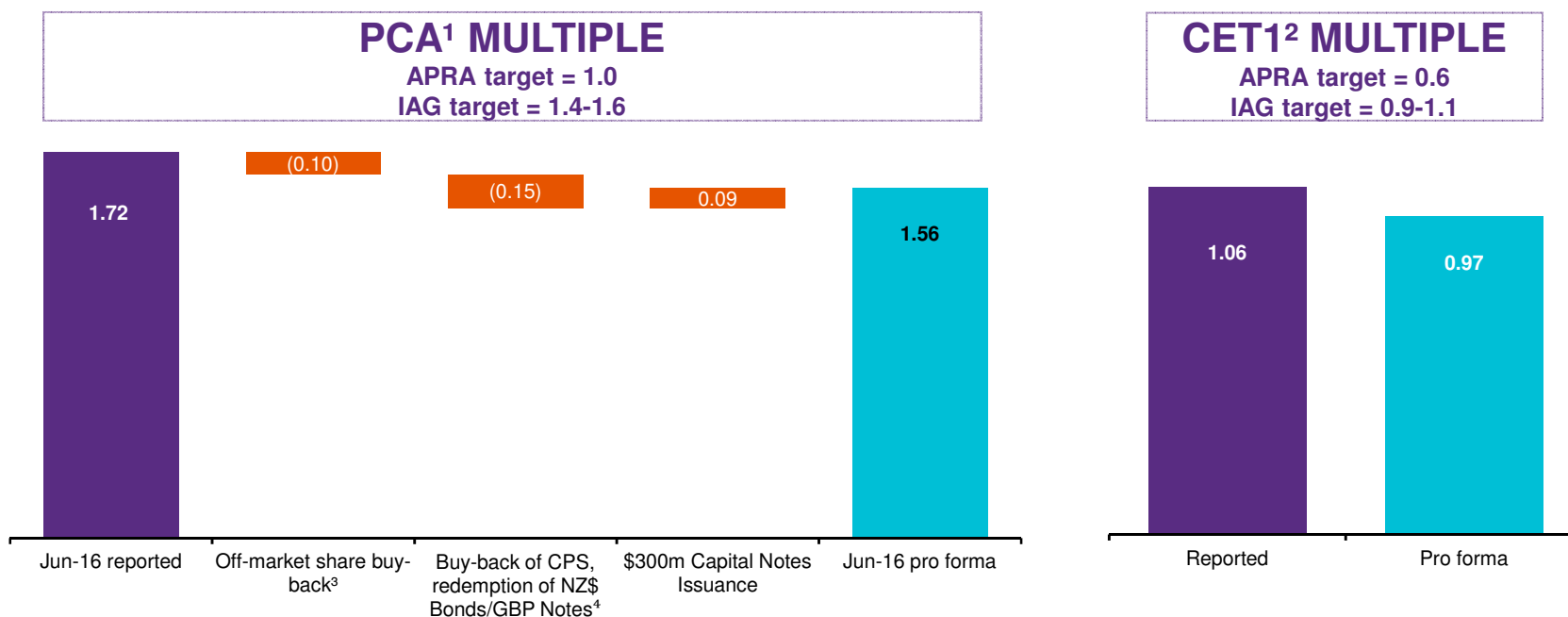


# Capital and Investments



# Group capital

Strong reported and pro forma position as at 30 June 2016



1. Prescribed Capital Amount, as prescribed by APRA, reflecting a minimum level of capital which is intended to take account of the full range of risks to which a regulated institution is exposed.

2. Common Equity Tier 1 capital of the Group as defined by APRA from time to time.

3. \$314 million off-market share buy-back (and associated transaction costs) completed on 10 October 2016.

4. Assumed buy-back of \$377m of CPS, redemption of \$179m (NZ\$187m equivalent) of 2011 NZ\$ Bonds and the redemption of \$178m (GBP100m equivalent) of 2006 GBP Notes.



# Debt and hybrid capital

## Active capital management

As at 30 June 2016	Principal		Margin/ coupon	Optional call/ exchange date	
	m	\$m			
IAL Subordinated term notes <sup>1</sup>	\$350	350	+2.8% Margin	Mar 19	
Subordinated fixed rate notes <sup>2</sup>	£100	178	5.625% Fixed	Dec-16	Redeeming in Dec 2016
Subordinated fixed rate bonds <sup>2</sup>	NZ\$187	179	7.50% Fixed	Dec-16	
Subordinated fixed rate notes	NZ\$350	335	5.15% Fixed	Jun-22	
<b>Total Debt</b>		<b>1,042</b>			
Convertible Preference Shares (IAGPC)	\$377	377	+4.0% Margin	May-17	Reinvestment Offer
Reset Exchangeable Securities (IANG)	\$550	550	+4.0% Margin	Dec-19	
<b>Total Hybrid Capital</b>		<b>927</b>			
<b>Total Debt and Hybrid Capital</b>		<b>1,969</b>			

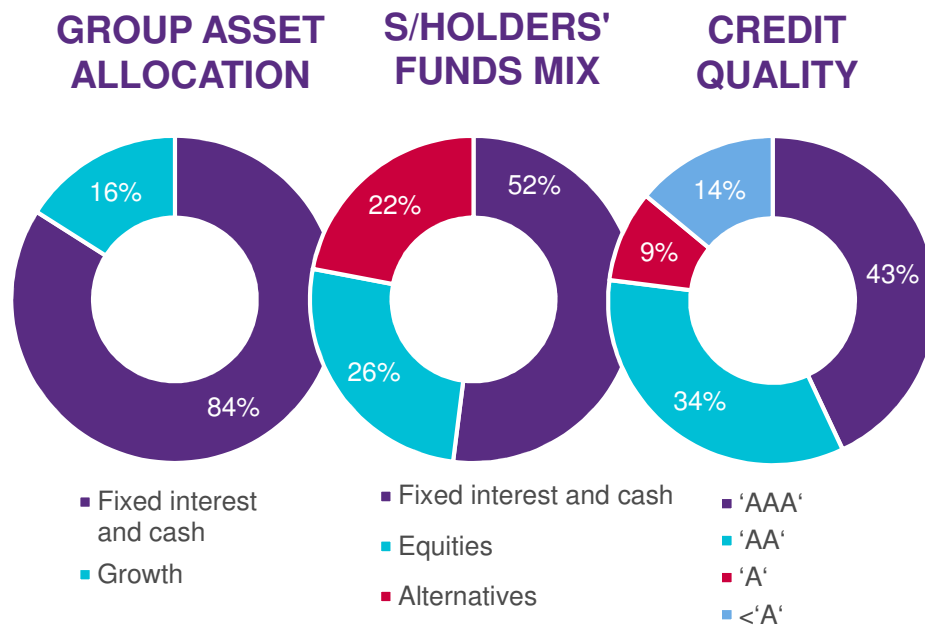
1. Issued by Insurance Australia Limited (IAL) – a wholly owned IAG subsidiary

2. IAG has given notice to holders that these instruments will be redeemed on their forthcoming issuer call dates in December 2016



# Investments

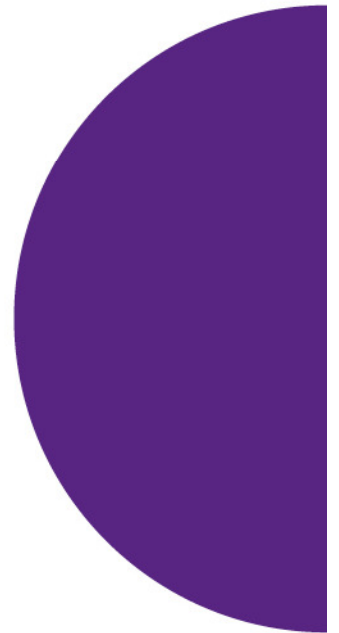
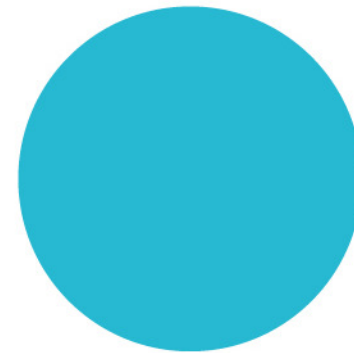
## Conservative mix and high credit quality characteristics unchanged



- Total investments of \$12.9 billion as at 30 June 2016
  - Technical Reserves = \$8.7 billion
  - Shareholder’s Funds = \$4.2 billion
- Over 84% of investments in fixed interest and cash
- 77% of the fixed interest and cash portfolio rated AA or higher
- Equities and Alternatives asset weighting in Shareholders’ Funds of 48% at 30 June 2016
- Lower Shareholders’ Funds return influenced by weak equity market performance



## Key features of the Capital Notes



# Key features

## Distributions

### Distributions

- Non-cumulative based on a floating rate (3 month Bank Bill Rate)
- Expected to be fully franked
- If a Distribution is not fully franked, the cash amount of the Distribution will be increased to compensate holders for the unfranked portion of the Distribution, subject to no Payment Conditions existing
- Distributions are scheduled to be paid on the 15th of March, June, September and December, subject to IAG's absolute discretion and no Payment Conditions existing. A Payment Condition exists where:
  - paying the Distribution would result in IAG or the IAG Level 2 Insurance Group not complying with APRA's capital adequacy requirements (unless APRA otherwise approves in writing);
  - paying the Distribution would result in IAG becoming, or being likely to become, insolvent; or
  - APRA objects to the payment

### Distribution Rate

- $\text{Distribution Rate} = (3 \text{ month Bank Bill Rate} + \text{Margin}) \times (1 - \text{Australian corporate tax rate}^1)$
- Margin to be determined through the Bookbuild and is expected to be between 4.70% and 4.90% per annum


### Dividends and Capital Restrictions

- If for any reason a Distribution is not paid then, from that Distribution Payment Date and until and including the subsequent Distribution Payment Date, IAG cannot (subject to certain exceptions):
  - declare or determine to pay or pay an Ordinary Share Dividend; or
  - undertake any buy-back or capital reduction
- Failure to pay a Distribution when scheduled will not constitute an event of default
- Distributions that are not paid do not accrue and will not be subsequently paid

1. Applicable to the franking account of IAG

# Key features

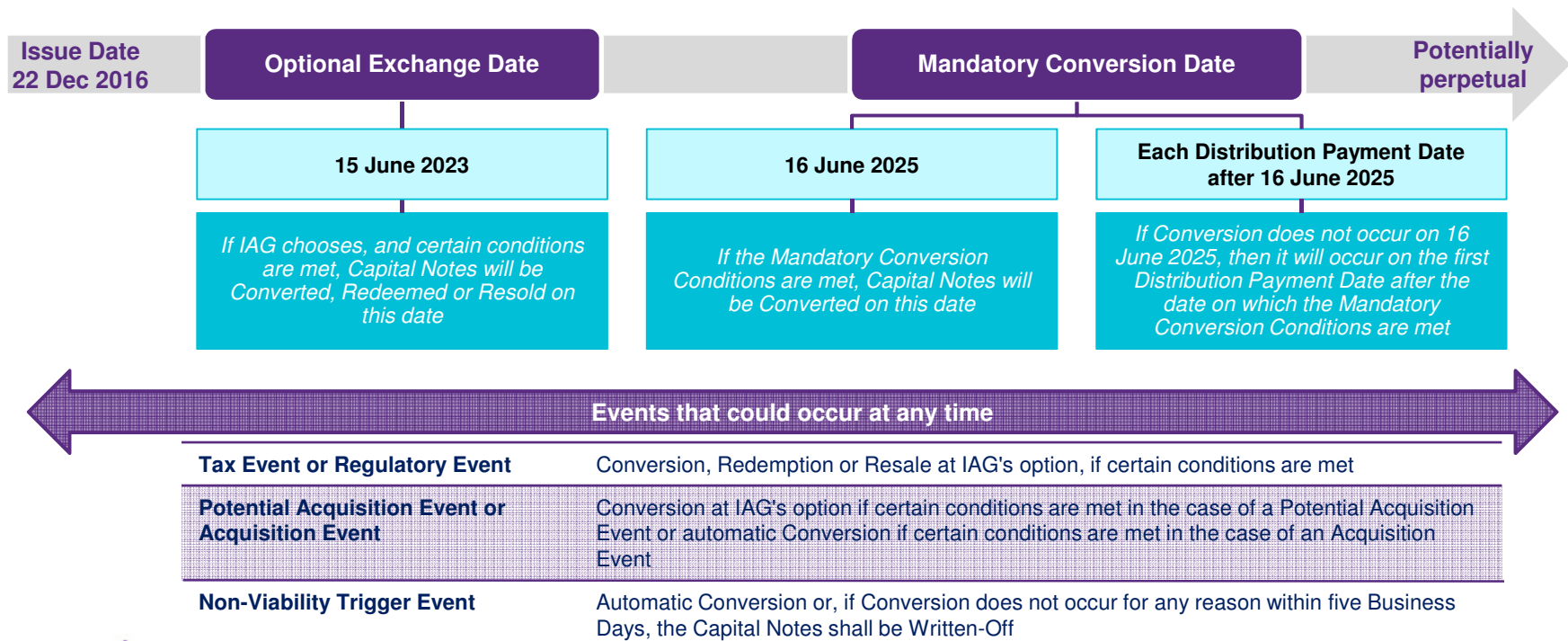
## Ranking of Capital Notes in a winding-up of IAG

Ranking		Illustrative examples
Higher  Lower	Preferred and secured debt	Liabilities preferred by law including employee entitlements and secured creditors
	Unsubordinated and unsecured debt	Bonds and notes, trade and general creditors
	Subordinated unsecured debt <sup>1</sup>	Subordinated unsecured debt obligations
	Perpetual subordinated instruments	<b>Capital Notes</b> , CPS, RES Preference Shares (if issued), and any securities expressed to rank equally with Capital Notes
	Ordinary Shares	Ordinary Shares

1. Tier 2 capital issued in compliance with APRA's Prudential Standards as at 1 January 2013 rank lower than Tier 2 capital issued before that time but senior to perpetual subordinated instruments (such as the Capital Notes).

# Key features

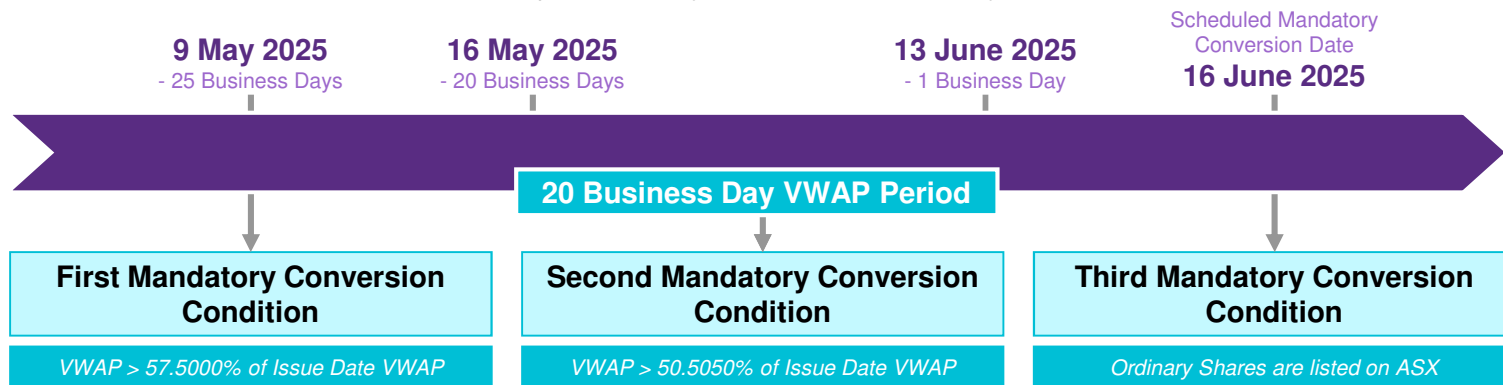
## Summary of events that may affect the Capital Notes



# Key features

## Mandatory Conversion on Mandatory Conversion Date

- On 16 June 2025, subject to satisfaction of the Mandatory Conversion Conditions illustrated below, Capital Notes will Mandatorily Convert into a variable number of Ordinary Shares at a 1% discount to the 20 day VWAP<sup>1</sup>, unless previously Exchanged or Written Off
- The number of Ordinary Shares issued following Conversion is subject to the Maximum Conversion Number
- If any of the Mandatory Conversion Conditions are not satisfied, the Mandatory Conversion Date will be deferred until the next Distribution Payment Date on which all of those conditions are satisfied. Capital Notes may remain on issue indefinitely if those conditions are not satisfied



$$\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{\text{Issue Date VWAP}^2 \times 50\%}$$

1. The VWAP during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date that is used to calculate the number of Ordinary Shares that Capital Note Holders receive will most likely differ from the Ordinary Share price on or after the Mandatory Conversion Date. This means that the value of Ordinary Shares received may be worth more or less than approximately \$101 per Capital Note when they are issued or anytime after that

2. Issue Date VWAP = VWAP during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding the Issue Date of the Capital Notes

# Key features

## Automatic Conversion on a Non-Viability Trigger Event

### Non-Viability Trigger Event

- APRA has provided a written determination to IAG that:
  - conversion or write off of Relevant Securities (including the Capital Notes) is necessary because, without it, APRA considers that IAG would become non-viable; or
  - without a public sector injection of capital (or equivalent support) IAG would become non-viable
- A Non-Viability Trigger Event is an APRA regulatory requirement for Capital Notes to be characterised as Additional Tier 1 Capital

### Conversion Following a Non-Viability Trigger Event

- If a Non-Viability Trigger Event occurs, IAG must immediately Convert a number of Capital Notes as is sufficient to satisfy APRA that IAG is viable without further conversion or write-off
- If the Non-Viability determination is made on the grounds that, without a public sector injection of capital (or equivalent support), IAG would become non-viable, all Capital Notes must be Converted
- On Conversion, Holders receive a variable number of Ordinary Shares (subject to the Maximum Conversion Number) at a 1% discount over the 5 day VWAP prior to the Conversion Date
- There are no conditions to Conversion following a Trigger Event
- The application of the Maximum Conversion Number means that, depending on the price of Ordinary Shares at the time of Conversion, Holders may suffer a loss as a consequence

### Maximum Conversion Number

$$\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{\text{Issue Date VWAP} \times 20\%}$$

- Issue Date VWAP = VWAP during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding the Issue Date of the Capital Notes

### Write-Off

If Capital Notes are required to be Converted on occurrence of a Non-Viability Trigger Event and Conversion has not been effected within five Business Days after the relevant Trigger Event Date for any reason, Capital Notes which would otherwise be Converted will be immediately and irrevocably terminated and Written-Off

# Key features

## Optional Exchange and automatic Conversion on Acquisition Event

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### Optional Exchange

IAG may choose to:

- Exchange all or some Capital Notes on 15 June 2023;
- Exchange all or some Capital Notes after a Tax Event or a Regulatory Event; or
- Convert all Capital Notes after a Potential Acquisition Event

IAG's right to elect to Exchange is subject to APRA's prior written approval and subject to restrictions in certain circumstances. Capital Note Holders should not assume that APRA will approve any Exchange

---

### Exchange

Exchange means:

- IAG Converts Capital Notes into a variable number of Ordinary Shares with a value (based on the VWAP during a period, usually 20 Business Days, before the Exchange Date) of approximately \$101 per Capital Note, subject to the Maximum Conversion Number and provided that certain conditions are satisfied;
  - IAG Redeems Capital Notes for \$100 per Capital Note;
  - IAG Resells Capital Notes for \$100 per Capital Note; or
  - a combination of Conversion, Redemption and Resale.
- 

### Acquisition Event

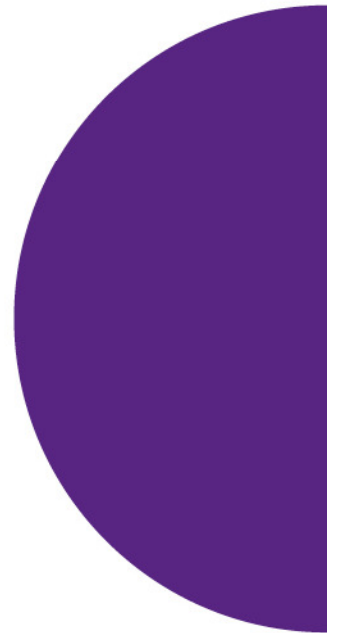
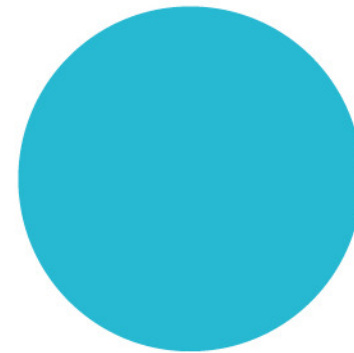
- If an Acquisition Event (as defined in the prospectus and the terms of the Capital Notes), occurs, IAG must Convert all Capital Notes on issue into approximately \$101 worth of Ordinary Shares (based on the 20 day VWAP, subject to the Maximum Conversion Number and provided that certain conditions are satisfied).
- 







# Reinvestment Offer



# IAG Capital Notes

## Reinvestment Offer to Eligible IAG CPS Holders

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### What is the Reinvestment Offer?

- An offer by IAG to Eligible CPS Holders to reinvest their CPS in Capital Notes
- Participating CPS will be bought back early on 22 December 2016 for \$100 each and have the buy-back proceeds (i.e. \$100 per CPS) applied to the Application Payment for Capital Notes

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### Who is an Eligible CPS Holder?

- A CPS Holder who was a registered holder of IAG CPS at 7:00pm Sydney time on **18 November 2016** and is shown on the CPS register as having an address in Australia, and is not in, or acting as a nominee for a person in, the United States

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### Options for Eligible CPS holders

- **Option 1** - apply directly to IAG to reinvest all or some of their CPS in Capital Notes
- **Option 2** - apply through a Syndicate Broker to reinvest all or some of their CPS in Capital Notes (and may also choose to apply for more Capital Notes through a Syndicate Broker)
- **Option 3** - take no action and their CPS will remain on issue in accordance with their terms

---

### Differences between CPS and Capital Notes

- Capital Notes and CPS have different rights, benefits and risks
- A comparison of the key features is summarised on Page 7. That comparison is not intended to be exhaustive

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### What happens to CPS not reinvested?

- CPS will remain on issue in accordance with their terms
  - IAG may elect to exchange the CPS on 1 May 2017, but no decision has yet been made
- 



# IAG Capital Notes

## Comparison of Capital Notes to CPS

Issue differences shaded in blue

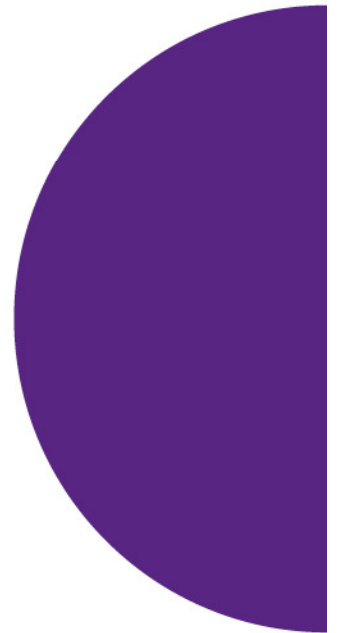
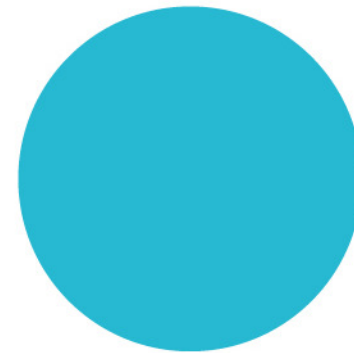
	Capital Notes	CPS
<b>Legal form</b>	Unsecured subordinated note	Preference share
<b>ASX code</b>	Expected to trade under IAGPD	IAGPC
<b>Margin</b>	Expected to be in the range of 4.70% - 4.90%	4.00%
<b>Distribution rate</b>	Floating rate, quarterly	Floating rate, semi-annual
<b>Franking</b>	Franked, subject to gross up for any non-franked portion	Franked, subject to gross up for a non-franked portion
<b>Distribution payment conditions</b>	Yes, Distributions are subject to IAG's absolute discretion and certain payment conditions	Yes, dividends are subject to IAG's absolute discretion and certain payment conditions
<b>Dividend restrictions if distributions are not paid</b>	Yes, applies to Ordinary Shares until the next Distribution Payment Date	Yes, applies to Ordinary Shares until the next dividend payment date
<b>Mandatory Conversion</b>	Yes, on 16 June 2025, subject to conditions	Yes, on 1 May 2019, subject to conditions
<b>Conversion on Non-Viability Trigger Event</b>	Yes. If not Converted within 5 business days, Capital Notes must be Written-Off, in which case their Holders' rights are terminated	Yes. If not converted within 5 business days, CPS must be written-down, in which case holders' rights become broadly equivalent to the rights they would have had if CPS had been converted into Ordinary Shares
<b>Optional Exchange<sup>1</sup></b>	On 15 June 2023, or for a Tax Event or Regulatory Event, or following a Potential Acquisition Event	On any date from 1 May 2017, or for a Tax or Regulatory Event, or following a Potential Acquisition Event
<b>Exchange method</b>	For a Tax Event or Regulatory Event Conversion, Redemption, Resale or a combination of them and, for a Potential Acquisition Event, Conversion only	Conversion, redemption or a combination of them
<b>Acquisition Event</b>	Mandatory Conversion, subject to conditions	Mandatory conversion or redemption subject to conditions
<b>Capital classification</b>	Additional Tier 1 Capital	Additional Tier 1 Capital until 1 May 2017

1. Subject to APRA's prior written approval and subject to restrictions in certain circumstances. Capital Note Holders should not assume that APRA will approve any Exchange





# Offer Process



# IAG Capital Notes

## Key dates<sup>1</sup>

Key dates for the Offer	
Lodgement of this Prospectus with ASIC	21 November 2016
Bookbuild to determine the Margin	28 November 2016
Announcement of the Margin	29 November 2016
Opening Date and lodgement of the replacement Prospectus with ASIC	29 November 2016
Closing Date for the Broker Firm Offer (excluding applications to reinvest CPS)	21 December 2016
Issue Date	22 December 2016
Commencement of deferred settlement trading	23 December 2016
Last date for despatch of Holding Statements	29 December 2016
Commencement of normal settlement trading	30 December 2016
Key dates for the Capital Notes	
First Distribution Payment Date	15 March 2017
Optional Exchange Date	15 June 2023
Mandatory Conversion Date	16 June 2025
Key dates for CPS holders	
Record date for determining Eligible CPS Holders for Reinvestment Offer	18 November 2016
Opening Date for the Reinvestment Offer	29 November 2016
Closing Date for the Reinvestment Offer	16 December 2016
Closing Date for the Broker Firm Offer (applications to reinvest CPS)	16 December 2016
Reinvested CPS Buy-Back Date and payment date for Pro Rata Dividend on Reinvested CPS	22 December 2016
First optional exchange date for remaining CPS	1 May 2017



1. These dates are indicative only and may change

# IAG Capital Notes

## Contacts

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Further information about IAG and the Capital Notes is available at [www.iag.com.au](http://www.iag.com.au).



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# Disclaimer

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Capital Notes are perpetual, convertible, subordinated debt obligations in the form of unsecured notes to be issued by IAG. Capital Notes are scheduled to Convert into Ordinary Shares on the Mandatory Conversion Date, (subject to the Mandatory Conversion Conditions being satisfied) and Capital Notes will also be Converted or Written-Off if a Non-Viability Trigger Event occurs. Capital Notes are not guaranteed or secured, are not policy liabilities of any member of the Group and are not protected policies for the purposes of the Insurance Act.

The Prospectus is important and you should read it in full before deciding whether to invest in Capital Notes. A copy of the Prospectus is available at [www.iag.com.au](http://www.iag.com.au).

If you have any questions, IAG strongly recommends that you seek professional advice which takes into account your particular investment objectives and circumstances from a licensed adviser before deciding whether to apply to participate in the Offer.

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