



18 May 2016

Manager, Company Announcements Office
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

IAG's New Zealand Subordinated Notes Offer open

Insurance Australia Group Limited (IAG) attaches a copy of a further announcement it is making today on the NZX in respect of the offer of unsecured subordinated convertible notes (Notes) to institutional investors and New Zealand retail investors, in respect of the Margin set for the Notes.

No approval of any class of holders of IAG securities is required in relation to the proposed issue of Notes.

The offer is not being made to retail investors in Australia, and retail investors in Australia cannot obtain a copy of the product disclosure statement.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Bertuch', is written over a light grey rectangular background.

Chris Bertuch
Group General Counsel and Company Secretary

IAG Subordinated Notes offer open.

Insurance Australia Group Limited (IAG) announced today that, following strong investor demand for the offer of unsecured subordinated convertible notes (Notes), the issue size has been increased to NZ\$350 million, including oversubscriptions of NZ\$100 million. Each Note will have a face value and issue price of NZ\$1.00.

The Margin has been set at 2.60% per annum, giving a fixed interest rate until the first optional redemption date (15 June 2022) of 5.15% per annum. Any interest from then on will be a floating rate that is set at 3 monthly intervals to be equal to the margin and the applicable 3-month bank bill rate.

Interest is payable quarterly in arrears. Interest may not be paid if an interest deferral condition exists. Unpaid interest accumulates and is payable when the interest deferral condition no longer exists and in other circumstances.

The Notes have a final maturity of 15 June 2043. However, subject to conditions being met (including APRA's prior written approval being obtained), the Notes may be repaid earlier by IAG on scheduled optional redemption dates (being each quarterly interest payment date from 15 June 2022 to 15 June 2023) or if there is a change in the tax or regulatory treatment of the Notes.

If the Notes are still outstanding nine years after issue holders may elect to convert their Notes into ordinary shares in IAG.

All or some of the Notes will convert into ordinary shares in IAG if a non-viability event occurs (or, if conversion does not occur, the Notes will be written off). A non-viability event could occur if IAG encounters severe financial difficulty. All of the Notes have been allocated to intermediaries on a firm basis for distribution to their clients and there will be no public pool available. Investors seeking an allocation of the Notes should contact a Joint Lead Manager, a Co-Manager or their usual financial adviser.

The number of ordinary shares received on conversion will be based on a volume-weighted average price (VWAP) over a certain period, less a discount of 1%. The number of ordinary shares will be capped at a maximum number set by reference to the VWAP of ordinary shares at the issue date (50% of that VWAP for conversion at the holder's option and 20% of that VWAP for conversion on non-viability).

The offer opens on Thursday, 19 May 2016 and closes on Friday, 10 June 2016. IAG will pay early bird interest to each investor on subscriptions at 4.00% per annum from the date on which subscription moneys are banked to (but excluding) the issue date, unless your subscription money is returned for any reason. Early bird interest will be paid within five business days of the issue date. The scheduled issue date for the Notes is 15 June 2016.

To obtain a free copy of the product disclosure statement (PDS) investors should contact a Joint Lead Manager, a Co-Manager or their usual financial adviser. A copy of the PDS is also available at www.iag.com.au (Shareholder Centre). There are restrictions on offering, issuing or selling the Notes outside New Zealand, as set out in the PDS.

The Notes are expected to be quoted on the NZX Debt Market.

The Notes are complex financial products and are not suitable for many investors. If you do not fully understand how they work or the risks associated with them, you should not invest in them. You should read the PDS and you can seek advice from a financial adviser to help you make an investment decision.

The Notes will not be registered under any US securities laws, and may not be offered or sold in the United States or to or for the account or benefit of any US persons (as defined in the US Securities Act). No action has been taken to permit a public offer of Notes in Australia or any place other than in New Zealand. Notes may only be offered for sale in compliance with all applicable laws and regulations.

About IAG

IAG is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia, employing more than 15,000 people. Its businesses underwrite over \$11.4 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam); and Asuransi Parolamas (Indonesia). IAG also has interests in general insurance joint ventures in Malaysia and India. For further information please visit www.iag.com.au.

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