

News release
19 August 2016

IAG announces \$300 million off-market share buy-back.

Insurance Australia Group Limited ("IAG") today announced its intention to return around \$300 million to shareholders through an off-market ordinary share buy-back ("Buy-Back").

"The \$300 million Buy-Back reflects IAG's active capital management approach, which seeks to maximise total shareholder returns by returning surplus capital through an effective means," said IAG Chief Financial Officer Nick Hawkins.

The Buy-Back will be funded from existing cash and investments and IAG will maintain a strong balance sheet and regulatory capital position following the Buy-Back.

The Buy-Back will be conducted by way of an off-market tender process which will open on Friday, 9 September 2016 and close at **7.00pm (Sydney time) on Friday, 7 October 2016**.

An information flyer will be dispatched to all eligible shareholders from 19 August 2016 detailing how eligible shareholders can obtain a copy of the Buy-Back booklet. This Buy-Back booklet contains the Buy-Back terms and conditions (including eligibility and details of the tender process) and is expected to be available on IAG's website (www.iag.com.au), or dispatched in hardcopy if requested, from 26 August 2016.

Participation in the Buy-Back is optional. Shareholders who choose not to participate and retain their IAG shares are expected to benefit from an improvement in earnings per share because the number of shares on issue will be reduced as a result of the Buy-Back.

IAG may, at its absolute discretion, vary the size of the off-market Buy-Back, including not buying back any Shares at all depending on several factors including shareholder demand, market conditions and forecast future capital requirements.

Details of the Buy-Back

Under the Buy-Back, eligible shareholders on the register on 25 August 2016 ("Buy-Back Record Date") may tender some or all of their Shares at discounts of between 4% and 14% inclusive (at 1% intervals) to the VWAP Market Price¹ and/or as a Final Price Tender (being the offer to sell the Shares to IAG at the final Buy-Back Price within the 4% to 14% discount range as determined by IAG). Any Tender made by shareholders can also be conditional upon the Buy-Back Price exceeding a specified Minimum Price.

IAG will determine the final Buy-Back Price based on the lowest price at which it can buy-back its targeted amount of capital based on the Tenders received from participating shareholders, subject to not being more than the Tax Market Value.² For eligible shareholders who choose to participate in the Buy-Back, successful Tenders will be determined as follows:

- If the Buy-Back Discount is equal to or less than the Tender Discount selected by a shareholder, or if a Final Price Tender is lodged, the Shares will be bought back, subject to any scale back and, if applicable, any nominated Minimum Price condition; and
- If the Buy-Back Discount is greater than the Tender Discount selected by a shareholder, the Tender will be unsuccessful and no Shares will be bought back.

A shareholder who has their Tender accepted will be paid the Buy-Back Price (the VWAP Market Price less the Buy Back Discount) for each Share that is bought back even if they tendered Shares at a Tender Discount greater than the final Buy-Back Discount. Shareholders should also not have to pay any brokerage to sell their Shares into the Buy-Back.

Successful Tenders may be scaled back if the number of Shares tendered at Tender Discounts greater than or equal to the Buy-Back Discount and as Final Price Tenders exceeds the total value of Shares that IAG determines to buy back. The scale back has been structured to minimise the impact on shareholders who have, or would otherwise be left with, a small holding. IAG will first buy back a Priority Allocation of 850 Shares³ from each shareholder that successfully participates in the Buy-Back.

Additionally, shareholders who tender all of their Shares at one or more Tender Discounts equal to or greater than the Buy-Back Discount and/or as a Final Price Tender, and who would otherwise be left with a Small Residual shareholding of 340 Shares³ or less as a result of IAG's acquisition of the Priority Allocation and any Shares subject to the scale back, will have their Tender(s) accepted in full without any scale back.

¹ VWAP Market Price means the volume weighted average price of IAG ordinary shares on ASX over the five trading days up to and including the Closing Date (expected to be 7 October 2016), excluding certain trades, calculated to four decimal places, as determined by IAG after 4.30pm (Sydney time) on the Closing Date.

² The Tax Market Value broadly represents the 5 day VWAP of IAG shares prior to this announcement adjusted by movements in the S&P/ASX200 in the period up to the Closing Date.

³ IAG retains the discretion to reduce the Priority Allocation and/or the Small Residual amount (for instance, if it would otherwise cause IAG to exceed the number of Shares that it desires to buy-back).

Tax considerations

The Buy-Back is considered an off-market buy-back for the purposes of the *Income Tax Assessment Act 1936* (Cth). IAG expects that the Buy-Back Price will consist of a Capital Component of \$2.99 and the balance of the Buy-Back Price will be treated as a fully-franked dividend.⁴

It is likely that the IAG share price on-market will be higher than the Buy-Back Price as shareholders are being invited to tender Shares into the Buy-Back at discounts to the VWAP Market Price. However, for some IAG shareholders, depending on their individual circumstances, the Buy-Back may provide a greater after-tax return than selling Shares on market. The Buy-Back will have different tax consequences for different shareholders. As such, IAG strongly recommends shareholders seek their own professional advice (including tax advice) about the implications of participation in the Buy-Back in respect of their own individual circumstances.

Dividend considerations

All shareholders with an entitled registered holding on 7 September 2016 will receive the fully franked Final Dividend for the financial year ended 30 June 2016 whether or not they participate in the Buy-Back. Submitting a Tender prior to the Closing Date will not affect a shareholder's right to receive the Final Dividend.

Shares allocated under the Dividend Reinvestment Plan ("DRP") with respect to the Final Dividend for the financial year ended 30 June 2016 cannot be tendered in the Buy-Back. Allocation of Shares under the DRP will also result in a Tender not being considered a Small Residual Tender and may cause a Tender to be subject to any scale back. Shareholders who wish to tender all their Shares into the Buy-Back may consider withdrawing from the DRP by amending their DRP instructions through the Registry's (Computershare) Investor Centre website or by completing a DRP form. Computershare must receive these updated DRP instructions by 5.00pm Sydney time on Thursday, 8 September 2016.

⁴ IAG anticipates this will be confirmed in the final ATO Class Ruling which is expected to be issued after completion of the Buy-Back.

Buy-Back timetable

August 2016

Announcement of FY16 results and Buy-Back Dispatch of information flyer	Friday, 19 August 2016
Last day that Shares can be acquired on market to be eligible to participate in the Buy-Back and to qualify for franking credit entitlements in respect of the Buy-Back consideration	Tuesday, 23 August 2016
Buy-Back Ex-Entitlement Date: The date that Shares commence trading on an ex-Buy-Back basis. Shares acquired on market on or after this date will generally not confer an entitlement to participate in the Buy-Back.	Wednesday, 24 August 2016
Buy-Back Record Date: Determination of shareholders entitled to participate in the Buy-Back at 7.00pm (Sydney time)	Thursday, 25 August 2016
Buy-Back booklet expected to be available to shareholders on IAG website	Friday, 26 August 2016

September 2016

Record date for determination of shareholders entitled to receive the Final Dividend at 7.00pm (Sydney time)	Wednesday, 7 September 2016
IAG must receive your DRP form to join, withdraw or vary your participation in the DRP by 5.00pm (Sydney time)	Thursday, 8 September 2016
Tender Period opens	Friday, 9 September 2016

October 2016

Final Dividend payment date	Wednesday, 5 October 2016
Closing Date: Tenders must be received by the Registry no later than 7.00pm (Sydney time)	Friday, 7 October 2016
Buy-Back Date: Announcement of Buy-Back Price and scale back (if any) to ASX and entry into Buy-Back Contracts	Monday, 10 October 2016
Dispatch/crediting of Buy-Back proceeds to participating shareholders completed	Monday, 17 October 2016

While IAG does not anticipate any changes to these dates and times, it reserves the right to vary them by ASX announcement. Such an announcement will be taken to amend the Buy-Back booklet (and the other Buy-Back Documents) accordingly. IAG may, at its absolute discretion, also decide not to proceed with the Buy-Back.

Further information

Certain Ineligible Shareholders (including, but not limited to, Excluded Foreign Shareholders in the United States, US Persons, Canadian residents and persons in other foreign jurisdictions whose participation in the Buy-Back would be illegal) are not entitled to participate in the Buy-Back. More eligibility information is provided in the Buy-Back booklet.

Unless otherwise specified, capitalised terms in this announcement have the same meaning as will be contained within the Buy-Back booklet, which will be available on 26 August 2016.

Shareholders with enquiries should refer to IAG's website at www.iag.com.au or contact the IAG Buy-Back Information Line on 1300 640 412 from within Australia or on +61 3 9415 4067 from outside Australia.

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 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.

Media

Amanda Wallace
Telephone. +61 (0)2 9292 9441
Mobile. +61 (0)422 379 964
Email. amanda.wallace@iag.com.au

Investor Relations

Simon Phibbs
Telephone. +61 (0)2 9292 8796
Mobile. +61 (0)411 011 899
Email. simon.phibbs@iag.com.au

Insurance Australia Group Limited

ABN 60 090 739 923
388 George Street
Sydney NSW 2000 Australia
Telephone. +61 (0)2 9292 9222
www.iag.com.au

This document does not provide financial product advice or investment advice and IAG is not making any recommendation or giving any advice on the value of its Shares, or whether (or how) you should sell your Shares. This document has been prepared without taking into account your particular objectives, financial situation, taxation circumstances or needs. You should consider the appropriateness of the Buy-Back having regard to these factors. IAG strongly recommends that you consult your financial, taxation or other professional adviser.

Insurance Australia Group Limited Off-Market Buy-Back



This document is important.

If you wish to find out more information with a view to participating in the proposed buy-back, you should follow the process outlined in this letter

Dear Shareholder,

Your SRN/HIN is: [x]

IAG announces a proposed share buy-back

On Friday 19 August 2016, Insurance Australia Group Limited (**IAG**) announced its intention to buy back ordinary shares (**Shares**) to the value of around A\$300 million in an off-market tender process, as part of IAG's capital management strategy seeking to maximise shareholder returns (**Buy-Back**).

The purpose of this letter is to inform you of the proposed Buy-Back and to communicate how you can participate in this initiative after reading the Buy-Back information booklet (**Booklet**). Participation in the Buy-Back is voluntary and may or may not suit your particular circumstances.

Are you eligible to participate?

You may participate in the Buy-Back if Shares are registered in your name on Thursday, 25 August 2016 and your registered address is in Australia or New Zealand. Other foreign shareholders are not eligible to participate because of foreign laws and practical considerations.

More information about eligibility is outlined in the Booklet.

Why you may wish to participate

Depending on your individual circumstances, the Buy-Back may provide you with a greater after-tax return than you would achieve by selling your Shares on market without incurring brokerage fees. However, participating in the Buy-Back may not suit your individual position and you may be able to sell your Shares for a higher price on market during or after the Buy-Back period. You may also wish to retain your Shares to potentially benefit from increased earnings per share after completion of the Buy-Back. This is a complex transaction and IAG strongly recommends that you seek professional advice on the financial and taxation implications relevant to your individual financial position. You must read all of the information in the Booklet before deciding whether to participate.

Where to get more information?

If you are interested in participating in the Buy-Back, you must read the Booklet which has more information about the Buy-Back, the off-market tender process and how to participate.

You can download the Booklet from IAG's website at www.iag.com.au from 26 August 2016 until the expected Buy-Back closing date of 7 October 2016, or you may request a paper copy along with a personalised tender form by calling the IAG Buy-Back Information Line (details provided below). Around 9 September 2016 you will receive an email from IAG including a link to electronically access the Booklet along with a personalised tender form. You will not be able to participate in the Buy-Back if you do not choose one of these options.

The Buy-Back tender period is expected to open on Friday, 9 September 2016 and expected to close on Friday, 7 October 2016 so you should obtain the Booklet as soon as possible if you are interested in participating. Other key dates are summarised below.

How to participate

If you would like to participate, please follow these steps:

1. Obtain the Booklet (available from 26 August 2016)

- Follow the link in the email IAG will send to you around 9 September 2016; or
- Download from the website www.iag.com.au; or
- Request a paper copy by calling the IAG Buy-Back Information Line on **1300 640 412** within Australia or **+61 3 9415 4067** from outside Australia (Monday to Friday – 8.30am to 5.00pm Sydney time) (Note: an automated response facility operates outside these times).

2. Read the Booklet

The Booklet is an important document containing details of the Buy-Back. You must read the Booklet thoroughly before deciding whether to participate in the Buy-Back.

3. Decide whether to Participate

Participation in the Buy-Back is entirely voluntary.

If you do not wish to participate in the Buy-Back, you can do nothing and retain your existing shareholding.

If you decide to participate after obtaining and reading the Booklet, please follow the instructions in the Booklet and ensure the bank account nominated for your holdings is correct.

Key Dates*

Tuesday, 23 August 2016	Last day to acquire Shares on market, to participate in Buy-Back and qualify for franking credits on part of the Buy-Back consideration
Thursday, 25 August 2016	Buy-Back record date
Friday, 9 September 2016	Buy-Back tender period opens
Friday, 7 October 2016	Buy-Back closing date
Monday, 10 October 2016	Buy-Back date and announcement of Buy-Back price and any scale back
Monday, 17 October 2016	Completion of dispatch of Buy-Back proceeds

*IAG does not anticipate changing these dates but reserves the right to advise changes via ASX announcements. More information on key dates is included in the Booklet.

Important information

The information presented here is current as at 19 August 2016. Please note that the information presented here does not constitute or give rise to a legally binding offer capable of your acceptance.

After reading the Booklet, if you decide to tender your Shares into the Buy-Back, you will be making a formal offer to sell those Shares on the terms and conditions set out in the Booklet. You will not be able to deal with the Shares you tender into the Buy-Back. If IAG accepts all or part of your tender, a Buy-Back contract will be formed and the relevant Shares will be sold to IAG on those terms and conditions.

This document does not provide financial product advice or investment advice and IAG is not making any recommendation or giving any advice on the value of its Shares, or whether (or how) you should sell your Shares. This document has been prepared without taking into account your particular objectives, financial situation, taxation circumstances or needs. You should consider the appropriateness of the Buy-Back having regard to these factors. IAG strongly recommends that you consult your financial, taxation or other professional adviser.