

# **PROPOSED AMENDMENTS TO RESET EXCHANGEABLE SECURITIES**

## **INVESTOR PRESENTATION**

**23 October 2009**

# DISCLAIMER

- This presentation contains summary information about the proposed amendments to Reset Exchangeable Securities (“**RES**”), IAG Finance (New Zealand) Limited (“**Issuer**”), Insurance Australia Group Limited (“**IAG**”) and the **IAG Group** (i.e. IAG and its consolidated subsidiaries, including the Issuer) and is dated 23 October 2009. The information in this presentation does not purport to be complete or comprehensive, and does not purport to summarise all information that an investor should consider when making an investment decision. It should be read in conjunction with the Notice of Meeting and Explanatory Statement dated 23 October 2009 relating to the proposed amendments and the IAG Group’s other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange which are available at [www.iag.com.au](http://www.iag.com.au) or [www.asx.com.au](http://www.asx.com.au). No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this presentation. To the maximum extent permitted by law, none of the IAG Group, their respective directors, employees, advisors or agents, nor any other person accepts any liability, including, without limitation, any liability arising out of fault or negligence, for any loss arising from the use of the information contained in this presentation.
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- No part of this presentation should be relied upon as advice to RES holders as it does not take into account the investment objectives, financial situation or needs of any particular RES holders. Please note that past performance is no guarantee of future performance. To the extent there are any forward looking statements, opinions and estimates provided in this presentation they are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward looking statements including projections and guidance on future revenues, earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance.
- Neither the Existing RES nor the Amended RES have been, or will be, registered under the US Securities Act of 1933 (as amended) (“**Securities Act**”) or the securities laws of any state or other jurisdiction of the United States, and accordingly such securities may not be offered, issued, sold, resold or transferred in the United States unless an exemption from registration under the Securities Act and such other securities laws is available.
- In this presentation, reference to
  - “RES” or “Existing RES” means the existing Reset Exchangeable Securities
  - “Preference Shares” or “Existing Preference Shares” means the instrument following exchange of the Existing RES
  - “Amended RES” or “ARES” means the instrument after the proposed amendments are approved
  - “Amended Preference Shares” means the instrument exchanged from the Amended RES
  - “bps” means the basis points (expressed in 100ths of one percent) over the Bank Bill Swap Rate or BBSW
  - “margin” or “interest payments” includes an adjustment for franking credits in the manner described in the Explanatory Statement.

# AGENDA

- 1 Overview of Existing RES
- 2 Proposed Amendments
- 3 The IAG Group
- 4 RES holder meeting
- 5 Further Information

**Appendix:**

**Summary Amended RES and Amended Preference Shares Terms**

# 1. OVERVIEW OF EXISTING RES

- In 2005, IAG Finance (New Zealand) Limited (**Issuer**) raised A\$550m Reset Exchangeable Securities
- Proceeds were invested in a high quality, short-dated portfolio rated AAAf (S&P)
- Existing RES pay quarterly, franked, floating rate interest payments at BBSW + 120 bps
- First Reset Date is on 15 March 2010 unless exchanged earlier
- On a Reset Date, terms allow:
  - reset of some of the terms (including the margin) by the Issuer
  - redemption or conversion into IAG ordinary shares by the Issuer
  - redemption requested by holder (Issuer can redeem or convert into IAG ordinary shares)
- IAG can, at any time, exchange Existing RES for perpetual Preference Shares
- Preference Shares are callable by IAG 10 years after issue or dividend rate steps up by 100 bps

## 2. PROPOSED AMENDMENTS

### WHAT IS THE ISSUER PROPOSING TO DO?

- Issuer proposes to amend the terms of the Existing RES and Preference Shares in a way designed to balance the interests of RES holders and the IAG Group
- Amendments will require approval by resolution of RES holders at a meeting
- Amendments will increase the margin over BBSW to 400 bps (from 120 bps) until Reset Date on 16 December 2019
- Amendments will permit:
  - the Issuer to retain the Existing RES funding and provide ongoing funding for the IAG Group's New Zealand businesses
  - the Amended RES to qualify as regulatory (Innovative) Tier 1 capital and provide equity credit for rating purposes
- IAG believes this approach is prudent given on-going uncertainty in financial markets
- If the proposed Amendments are not approved, IAG will exchange the Existing RES for Existing Preference Shares by 15 March 2010, which will create similar regulatory capital outcome but a less attractive, lower margin security for investors
- As a result, RES holders will not be able to request redemption on 15 March 2010
- A RES holder meeting is scheduled for 9 December 2009 to vote on the Amendments (75% of votes cast are required to be in favour to approve the Amendments)

## **2. PROPOSED AMENDMENTS**

### **DIRECTORS' RECOMMENDATION**

**The Directors of the Issuer consider that, on balance, it is in the best interests of RES holders to approve the proposed Amendments as they would be better off holding the Amended RES rather than holding the Existing Preference Shares**

**This is supported by an Independent Expert's conclusion that:**

**“having regard to the advantages, disadvantages and other considerations of the Proposal, as well as the implications if the Proposal is not approved, the Proposal is in the best interests of RES Holders.”**

## 2. PROPOSED AMENDMENTS

### KEY AMENDMENTS

#### 1 Margin

- **Amended RES margin will be 400 bps for the first 10 years, a margin which may be reset at each Reset Date**
- Represents an increase from the Existing RES margin of 120 bps
- If Amendments are not approved, Existing RES will be exchanged for Existing Preference Shares with a margin of 120 bps for the first 10 years with a one time 100 bps step-up at year 10

#### 2 Distributions

- **Amended RES distributions will be discretionary, non-cumulative and subject to sufficient IAG profits and APRA Tier 1 payments tests**
- Existing Preference Shares are subject to similar tests

#### 3 Exchange Right

- **Amended Preference Shares, issued upon Exchange, have substantially similar terms to Amended RES**
- Exchange into Amended Preference Share is at IAG's option and must occur in circumstances required by APRA regulations
- Existing Preference Shares have differing terms and conditions to Existing RES

## 2. PROPOSED AMENDMENTS

### KEY AMENDMENTS

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Reset /  
step-up

- **Amended RES margin may be reset at year 10 and on any subsequent Reset Date**
- Existing Preference Shares have a one-off step-up of 100 bps in margin to 220 bps in 10 years' time

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Holder  
rights

- **Holders of Amended RES can request conversion into Ordinary Shares (or, at the Issuer's discretion, cash with APRA's approval) at the Reset Date and after an acquisition event**
- Existing Preference Shares give holders no rights to request redemption or conversion (it is IAG's right to redeem or convert on or after the Step-Up Date)

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Portfolio

- **Amended RES will not be secured by the Portfolio** – the same outcome to where Existing RES are exchanged for Existing Preference Shares

## 3. THE IAG GROUP

### BALANCE SHEET IMPACT

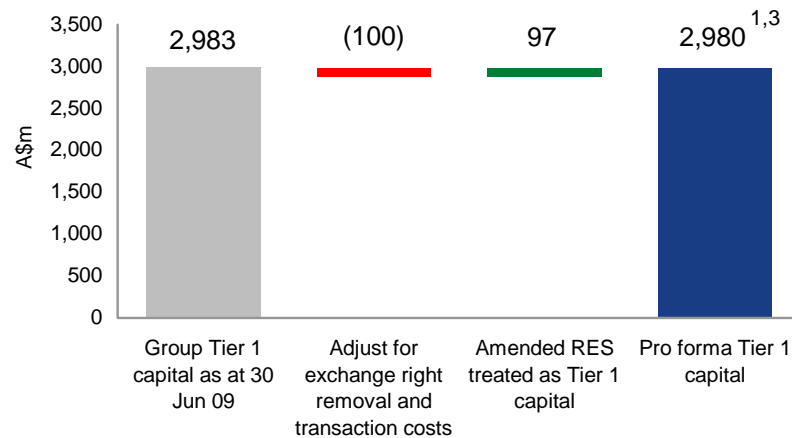
#### Balance sheet impact on the IAG Group

- RES and the Portfolio are currently set off and are thus off-balance sheet for the IAG Group
- If Amendments are approved:
  - Amended RES become an IAG Group on-balance sheet liability
  - Funds raised by the Issuer will continue to support the IAG Group's New Zealand businesses
  - Funds released from Portfolio will be invested in accordance with the IAG Group's investment mandates
- If Amendments are not approved, RES will be exchanged for Existing Preference Shares issued by IAG and become equity on the IAG Group's balance sheet

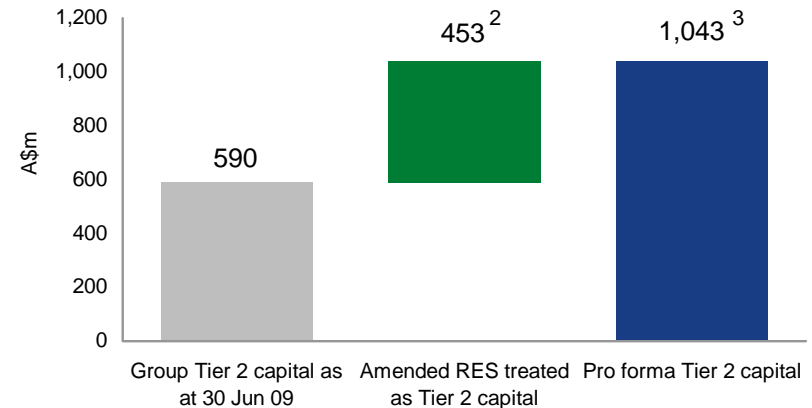
# 3. THE IAG GROUP

## GROUP CAPITAL ADEQUACY POSITION

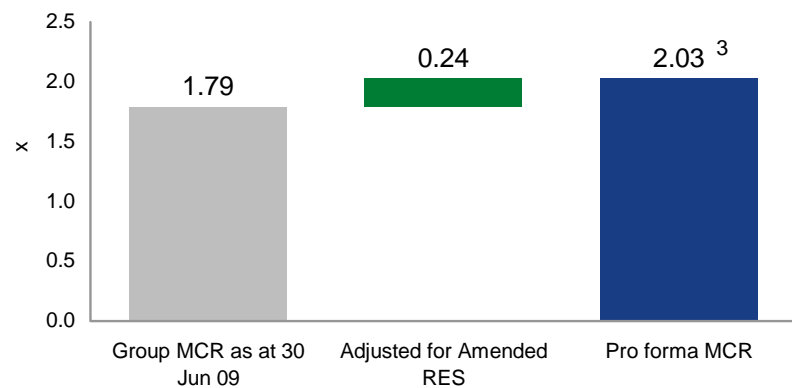
### Tier 1 capital



### Tier 2 capital



### MCR multiple



#### Notes:

- 1 Includes \$97 million of Amended RES eligible for inclusion within the IAG Group's Innovative Tier 1 Capital capacity, net of the removal of \$96 million exchange right adding transaction costs (\$5 million) net of tax (\$1 million) which is expensed through the income statement.
- 2 Remainder of Amended RES (\$453 million) included as Upper Tier 2 Capital.
- 3 If Amendments are not approved and the Existing RES are Exchanged for Existing Preference Shares, the pro forma MCR will remain unchanged at 2.03x. However, the regulatory capital base split between Tier 1 and Tier 2 will be Tier 1 capital of \$3,097m and Tier 2 capital of \$930m

## 4. RES HOLDER MEETING

### VOTING DETAILS

#### Voting options

- vote 'FOR' the proposed Amendments;
- vote 'AGAINST' the proposed Amendments; or
- vote 'ABSTAIN'

#### Attendance options

- **In person:**  
A RES holder who is entitled to attend and cast a vote at the RES holder meeting (an "eligible RES holder") may attend the RES holder meeting in person on 9 December 2009 to be held at Hilton Sydney, 488 George Street, Sydney commencing at 4.00pm
- **By proxy:**  
An eligible RES holder has a right to appoint one proxy to attend and vote instead of the RES holder. The completed Proxy Form must be received by the Registry prior to 4.00pm on 7 December 2009
- **By attorney or corporate representative:**  
An eligible RES holder may also appoint an attorney or, for a corporate RES holder, a corporate representative to vote on their behalf. Powers of attorney (or certified copies of them) must be received by the Registry prior to 4.00pm on 7 December 2009

You will be subject to the outcome of the vote regardless of whether or not you have voted.  
The Directors recommend that you vote in favour of the proposed Amendments.

## 4. RES HOLDER MEETING

### KEY DATES

Event	Date
Announcement of the proposed Amendments	23 October 2009
Notice of Meeting, Explanatory Statement and Proxy Form sent to RES holders	4 November 2009
Record date (to determine RES holders who are eligible to vote)	2 December 2009
Last date to lodge proxy vote or notify of appointment of attorney or corporate representative	4.00pm, 7 December 2009
RES holder meeting date	4.00pm, 9 December 2009
Amendment Date (if approved)	15 December 2009
First Reset Date under the Amended RES Terms	16 December 2019

## 5. FURTHER INFORMATION



Clayton Whipp, Head of Group Finance	02 9292 1104
Alan Cazalet, Group Treasurer	02 9292 8451
Mark Gold, Deputy Group Treasurer	02 9292 2353



Tricia Ho, Capital Markets	02 9324 3939
Andrew Buchanan, Capital Markets	02 9324 2617

**RES Information Line:**

**1300 666 635**

**[www.iag.com.au/res](http://www.iag.com.au/res)**

# APPENDIX

## SUMMARY TERMS

Feature	Amended RES	Amended Preference Shares
<b>Issuer</b>	IAG Finance (New Zealand) Limited, through its New Zealand branch	Insurance Australia Group Limited
<b>Issue Credit Rating</b>	'A-' by S&P <sup>1</sup>	'A-' by S&P <sup>2</sup>
<b>Regulatory capital characterisation</b>	Will qualify as Innovative Tier 1 Capital on a Level 2 basis	Will qualify as Innovative Tier 1 Capital on a Level 2 basis
<b>Term</b>	Perpetual	Perpetual
<b>Ranking</b>	Subordinated and on a winding-up of the Issuer, Amended RES will be Exchanged automatically into Amended Preference Shares	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>Distributions</b>	Franked, quarterly, non-cumulative, floating, based on 3-month Bank Bill Rate and subject to distribution payment tests	Franked, quarterly, non-cumulative, floating, based on 3-month Bank Bill Rate and subject to distribution payment tests
<b>Distribution rate</b>	3-month Bank Bill Rate + RES Margin x (1- Tax Rate)	3-month Bank Bill Rate + Preference Share Margin x (1- Tax Rate)
<b>Margin</b>	4.00% per annum and as may be reset	The RES Margin at the time of Exchange and as may be reset

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

2 S&P has indicated that they will rate the Amended Preference Shares "A-" if issued

# APPENDIX

## SUMMARY TERMS

Feature	Amended RES	Amended Preference Shares
<b>Source of distributions</b>	The Issuer. The Portfolio will not be a feature of the Amended RES	IAG
<b>Distribution payment tests</b>	The Directors not having passed a resolution not to pay and the absence of an APRA Condition	The IAG Directors passing a resolution to pay and the absence of an APRA Condition
<b>Distribution restrictions on other IAG securities for non-payment</b>	Distribution restrictions apply if the Issuer fails to pay an Interest Payment in full within 20 days of an Interest Payment Date When distribution restrictions apply, IAG must not declare or pay a dividend or make any distributions on any capital or return capital on any capital ranking below the Amended Preference Shares Restrictions may be lifted by 12 months of distributions or optional payment	Distribution restrictions apply if the Issuer fails to pay a Dividend in full within 20 days of a Dividend Payment Date When distribution restrictions apply, IAG must not declare or pay a dividend or make any distributions on any capital or return capital on any capital ranking below the Amended Preference Shares Restrictions may be lifted by 12 months of distributions or optional payment
<b>Reset provisions</b>	On any Reset Date, the Issuer can reset the RES Margin and the Reset Date, subject to APRA restrictions	On any Reset Date, IAG can reset the Preference Share Margin and the Reset Date, subject to APRA restrictions
<b>Initial Reset Date</b>	16 December 2019	16 December 2019
<b>Exchange into Amended Preference Shares</b>	Yes, in respect of all Amended RES: <ul style="list-style-type: none"> <li>mandatorily upon an Exchange Event; or</li> <li>at IAG's discretion at any time</li> </ul>	Not applicable
<b>Holder request</b>	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>	A Preference Shareholder can request Conversion for some or all of its Amended Preference Shares: <ul style="list-style-type: none"> <li>on any Reset Date; or</li> <li>following the occurrence of an Acquisition Event</li> </ul>
<b>Issuer response to holder request</b>	Redemption, Conversion or Resale at the Issuer's discretion	Redemption, Conversion or Resale at IAG's discretion

# APPENDIX

## SUMMARY TERMS

Feature	Amended RES	Amended Preference Shares
<b>Issuer Redemption, Conversion or Resale</b>	<p>The Issuer may Redeem, Convert or Resell:</p> <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 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>	<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 Acquisition Event occurs; 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>
<b>Conversion calculation</b>	$\frac{\$100}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$	$\frac{\$100}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$
<b>Redemption amount</b>	\$100	\$100