



share
buy-back



Buy-back Offer Booklet

INSURANCE AUSTRALIA GROUP LIMITED ABN 60 090 739 923

This is an important document. If you have any doubts as to what you should do, please consult your stockbroker, accountant or other professional adviser.

If you have any questions in relation to the Buy-back after reading this booklet please call the Buy-back Information Line on 1300 666 685.



Important dates for the Buy-back

Date	Event
9 May 2002	Ex-date. Shares commence trading on an ex Buy-back basis on this date
15 May 2002	Record Date. Shares you held on this day are eligible to be sold in the Buy-back
26 May 2002	Buy-back Offer Booklet mailed to shareholders no later than this day
27 May 2002	Buy-back Offer opens
20 June 2002	Closing Date. Buy-back Offer closes – acceptances must be received by 5.00pm (Sydney time)
21 June 2002	Announcement of Buy-back Price
24 June 2002	Buy-back Date and announcement of scaleback of acceptances (if required)
28 June 2002	Proceeds mailed to participating shareholders

IAG has the right to extend the Buy-back Offer Period without notice. IAG also has flexibility to nominate the final number of Shares it buys back (up to 139,915,959) or to buy back no Shares under the Buy-back Offer. The total number (or value) of Shares that IAG decides to buy back is referred to in this booklet as the “Buy-back Limit”. See section 6, paragraph 1.2 for further information.

A number of defined words and expressions are used in this booklet. Defined words and expressions are capitalised. See the Glossary in section 8 for the meaning of these words.

Advisers to IAG

Financial Adviser	Macquarie Equity Capital Markets Limited
Legal Adviser	Mallesons Stephen Jaques

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What is a buy-back?

Under a buy-back a company buys its own shares from its shareholders. Any shares bought back are cancelled, with the result that the number of shares on issue is reduced by the number of shares bought back.

Insurance Australia Group Limited ("IAG") is offering to buy back your Shares at the Buy-back Price on the Terms and Conditions described in section 6.

You can either:

Sell Shares, by accepting the Buy-back Offer. The maximum number of Shares which you may sell in the Buy-back is indicated on the personalised Acceptance Form which was sent to you with this booklet. Details of how to accept the Buy-back Offer are set out in section 3.

OR

Do nothing. You do not have to participate in the Buy-back if you do not wish to sell any of your Shares. If you do nothing, the number of Shares you hold will not change as a result of the Buy-back.

Some things to consider in making your decision:

Buy-back Price

- You will receive the Buy-back Price for each Share you sell in the Buy-back. The initial Buy-back Price is \$3.18* which will be adjusted upwards or downwards for the movement in the S&P/ASX 200 Index from the opening of trading on 1 March 2002 to the close of trading on the Closing Date. The Directors have a discretion to make further adjustment to the Buy-back Price. See section 6, paragraph 1.3 for further information.
- The Buy-back Price may be higher or lower than \$3.18. The Buy-back Price may also be higher or lower than the price at which Shares are sold on the stock market.
- If you sell your Shares on the stock market you can specify the price at which you wish to sell. You will not know the Buy-back Price at the time you agree to sell your Shares in the Buy-back. The actual Buy-back Price will be announced the business day after the Closing Date.

* The volume weighted average price over the 5 trading days before the initial announcement regarding the Buy-back on 1 March 2002 (adjusted to an ex-dividend basis). See the interim results announcement in section 4.

Tax considerations

- Depending on your individual circumstances, the tax implications of selling your Shares in the Buy-back may be more favourable than selling your Shares on the stock market. This may not be the case for all shareholders. See sections 1, 2 and 5 for further information.

No need to appoint a stockbroker

- If you sell your Shares on the stock market, you will need to do so through a stockbroker. To sell your Shares in the Buy-back, you need only follow the instructions in section 3.

No brokerage or GST on brokerage

- If you sell your Shares on the stock market, you may be required to pay brokerage to your stockbroker and GST on brokerage. You will not have to pay brokerage or GST on brokerage if you sell your Shares in the Buy-back.

Before making your choice you should read all of this booklet in order to make an informed decision about participating in the Buy-back.

Letter from the Chairman



6 May 2002

Dear shareholder,

On behalf of the Directors, I am pleased to offer you the opportunity to participate in Insurance Australia Group Limited's ("IAG") second share buy-back offer. IAG is offering to purchase Shares you hold in IAG.

The Buy-back forms part of IAG's ongoing capital management program and was foreshadowed on 1 March 2002 at the time IAG released its half-year results. IAG intends to fund the Buy-back with an issue of reset preference shares ("RPS") with the aim of achieving a more efficient capital structure. It is expected that the Buy-back and the issue of the RPS will improve earnings per Share and return on equity over time.

IAG intends to buy back around \$300 million of Shares. However, IAG may, at its discretion, buy back more or less than this amount (subject to a maximum of 139,915,959 Shares) or may buy back no Shares.

There are a number of features of an off-market Buy-back that I would like to highlight:

- Participation in the Buy-back is entirely voluntary. You can choose to:
 - sell Shares by accepting the Buy-back Offer; or
 - do nothing, thereby retaining your current shareholding.
- All eligible shareholders are given an equal opportunity to participate in the Buy-back at the same price.
- If you wish to dispose of your Shares in the Buy-back you will not have to appoint a stockbroker. All you need to do is follow the instructions in section 3.
- If you choose to participate in the Buy-back you will not have to pay the usual transaction costs such as brokerage or GST on brokerage.
- You may be better off selling your Shares in the Buy-back than on the stock market given that a part of the Buy-back Price will be deemed for tax purposes to be a fully franked dividend. However, this will depend on your individual circumstances. See sections 1, 2 and 5 for further information.

IAG will pay the Buy-back Price for each of your Shares that you sell into the Buy-back. See section 6, paragraph 1.3 for further information. The Buy-back Price may be higher or lower than the price at which Shares are sold on the stock market while the Buy-back Offer is open or following the closure of the Buy-back Offer. The Buy-back Price will comprise a capital component of \$1.78 and the balance of the Buy-back Price will be a fully franked dividend.

If the total number (or value) of Shares for which acceptances are received is more than the total number (or value) of Shares that IAG wishes to buy back, then a scaleback will operate in accordance with section 6, paragraph 1.2. Any Shares that IAG buys back will go out of circulation, and be cancelled.

I urge you to read this booklet in its entirety before you decide whether to participate in the Buy-back. If you have any doubts about what to do, you should consult your stockbroker, accountant or other professional adviser. If you have any questions after reading this booklet, don't hesitate to call the Buy-back Information Line on 1300 666 685.

Yours sincerely,

A handwritten signature in black ink that reads "James Strong". The signature is written in a cursive, slightly slanted style.

James Strong
Chairman
Insurance Australia Group Limited

Section 1 Frequently asked questions

This booklet contains important information about the Buy-back and is provided to enable you to make an informed decision on whether to participate in the Buy-back.

The detailed terms of the Buy-back Offer are set out in section 6.

1. Why is IAG buying back Shares?

The Buy-back is being undertaken as part of a capital management strategy designed to create a more efficient capital structure. It is expected that the Buy-back and the issue of the Reset Preference Shares will improve earnings per Share and return on equity over time.

2. Do I have to sell my Shares in the Buy-back?

No. If you do not want to sell your Shares in the Buy-back, do nothing. If you do nothing, the number of Shares you hold will not change as a result of the Buy-back. However, as IAG will cancel any Shares bought back, your proportional shareholding in IAG will increase marginally.

3. What price will I receive for my Shares?

The actual Buy-back Price has not yet been determined. The Buy-back Price that IAG will pay for each Share bought back will be \$3.18 (being the volume weighted average price of the Shares over the five trading days before 1 March 2002, adjusted to an ex-dividend basis) adjusted for the percentage change in the S&P/ASX 200 Index from the opening of trading on 1 March 2002 to the close of trading on the Closing Date, and rounded to the nearest cent.

The Directors may make a further adjustment to the Buy-back Price at their discretion if they believe on reasonable grounds that the movement in the S&P/ASX 200 Index from the opening of trading on 1 March 2002 to the close of trading on the Closing Date does not adequately reflect the movement in the market price of Shares over the same period.

You can check the level of the S&P/ASX 200 Index in many daily newspapers.

The actual Buy-back Price will be announced the business day after the Closing Date.

4. How do I accept the Buy-back Offer?

Section 3 explains how to accept the Buy-back Offer.

5. How many Shares can I sell in the Buy-back?

The maximum number of Shares you can sell in the Buy-back is indicated on the personalised Acceptance Form sent to you with this booklet. If you received a Grey or Purple Acceptance Form, you may sell all or some of the Shares indicated on your form.

If you received an Orange or Yellow Acceptance Form, you hold less than a Marketable Parcel of Shares. A Marketable Parcel is that number of Shares which would have a value, as at 15 May 2002, of at least \$500. If you wish to sell Shares in the Buy-back and you hold less than a Marketable Parcel of Shares, you must agree to sell all of your Shares.

6. How many Shares will IAG buy back?

IAG intends, having regard to its Share price, its need for capital, the amount raised by the offer of the RPS and market conditions at the Closing Date, to buy back Shares to a value in the order of \$300 million. However, IAG has a wide discretion under the terms of the Buy-back Offer (see section 6) to buy back Shares to a greater or lesser value up to a maximum of 139,915,959 Shares.

IAG, at its absolute discretion, may also choose not to buy back any Shares. For instance, IAG would be unlikely to buy back any Shares if, for some reason, the RPS offer did not proceed. The actual number of Shares to be bought back will also depend upon the Buy-back Price.

If the total number (or value) (based on the Buy-back Price) of Shares for which acceptances of the Buy-back Offer are received is more than the Buy-back Limit, then a scaleback will operate. The scaleback is intended to operate in the following way:

If you own	and you accept the Buy-Back Offer	then IAG will buy back
less than a Marketable Parcel of Shares	you must sell all of your Shares	all of your Shares
more than a Marketable Parcel of Shares	to sell less than 1,500 Shares	the number of Shares for which you accept the Buy-back Offer
	to sell 1,500 Shares only	1,500 Shares
	to sell more than 1,500 Shares	1,500 Shares plus a percentage of the number of Shares you have offered above 1,500 (which will be the same percentage for all shareholders)

BUT if you accepted the Buy-back Offer for all of your Shares and after the scaleback you are left with less than a Marketable Parcel of Shares, IAG will buy back **all of your Shares**.

If by buying back the first 1,500 Shares from each shareholder who accepts the Buy-back Offer, IAG would exceed the Buy-back Limit, then IAG will buy back less than the first 1,500 Shares from each of those shareholders. For more details on the way the scaleback operates, see section 6, paragraph 1.2.

7. How long is the Buy-back open?

The Buy-back Offer is open for acceptance from 9.00am (Sydney time) on 27 May 2002 until 5.00pm (Sydney time) on 20 June 2002 (the Closing Date). The Directors may extend the Offer Period, but they do not expect to do so.

8. How and when will I receive payment for my Shares?

A cheque for any Shares you sell in the Buy-back will be mailed to you on 28 June 2002. You will also be told at that time how many Shares you sold to IAG in the Buy-back. Unless the Registry has received written notification from you of a change of address before 5.00pm (Sydney time) on the Closing Date, your cheque will be mailed to the address shown on IAG's register on that date.

9. What are the tax implications of the Buy-back?

The Buy-back Price will be made up of two components, each of which have different tax implications for you:

- (i) a capital return of \$1.78; and
- (ii) a fully franked dividend equal to the balance of the Buy-back Price above \$1.78.

The tax implications of selling Shares in the Buy-back will not be the same for all shareholders and will depend on your individual circumstances. See section 1, question 16 and sections 2 and 5 for further details. IAG recommends that you seek your own professional tax advice.

10. Do the tax implications of participating in the Buy-back differ to selling my Shares on the stock market?

Yes. The tax implications of participating in the Buy-back differ from those which arise when you sell your Shares on the stock market. For more details you should refer to sections 1, 2 and 5 which explain these differences.

Section 2 Should I participate in the Buy-back?

You should read this booklet in full in order to make an informed decision on whether you want to participate in the Buy-back. By offering to buy back your Shares, IAG is not making any recommendation or providing any advice in relation to the value of its Shares, nor as to whether, or how, you should sell your Shares.

Set out below are some factors which you may wish to consider in deciding whether to participate in the Buy-back.

Transaction costs

Selling your Shares in the Buy-back may provide you with advantages which may not be available to you if you sell your Shares on the stock market. For example:

- **No stockbroker.** If you sell your Shares on the stock market, you will need to do so through a stockbroker. To sell your Shares in the Buy-back:
 - If you have an issuer sponsored holding, simply complete and return the Acceptance Form in accordance with the instructions in section 3 and on the Acceptance Form; and
 - If you have a CHESS (broker sponsored) holding, give instructions to your broker.
- **No brokerage.** If you sell your Shares on the stock market, you may be required to pay brokerage to your stockbroker and GST on brokerage. You will not have to pay brokerage or GST on brokerage if you sell your Shares in the Buy-back.

IAG Share price

The market price of Shares on the stock market may move higher or lower than the Buy-back Price while the Buy-back Offer is open. The Share price following the Buy-back Offer may also be higher or lower than the Buy-back Price. If you sell your Shares on the stock market you can specify the price at which you wish to sell your Shares. If you participate in the Buy-back, you will not know the Buy-back Price until after the close of the Buy-back Offer.

The Buy-back Price will be calculated at the close of the Buy-back Offer on the Closing Date and announced the business day after the Closing Date. The way in which the Buy-back Price is calculated is described in section 6, paragraph 1.3. You should note that you may be able to sell your Shares on the stock market for a price which is higher than the Buy-back Price (although different tax consequences may result).

Recent Share price and trading performance

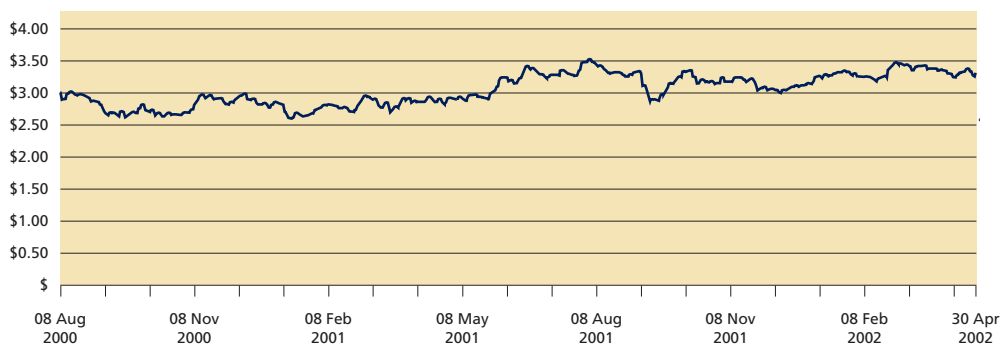
The closing price of IAG Shares on ASX on 28 February 2002, being the day before IAG made its initial announcement regarding the Buy-back was \$3.24.

The highest and lowest market sale prices of Shares, and the volume weighted average price of Shares, during each of the preceding four months were as follows:

Month 2002	High \$	Low \$	Volume weighted average price \$
January	3.37	3.08	3.28
February	3.33	3.15	3.25
March	3.51	3.18	3.42
April	3.42	3.23	3.30

A graph indicating the daily closing Share price performance of IAG over the period from 8 August 2000 to 30 April 2002 is set out below. The IAG Share price went ex-dividend on 26 March 2002. A dividend of 4.5c per Share was paid on 29 April 2002.

IAG Share performance



Inclusion of IAG Shares in the Morgan Stanley Capital International index ("MSCI")

It was announced on 19 May 2001 that IAG Shares were to be included in the MSCI. IAG was phased into the MSCI at 50% of its weighting on 30 November 2001 and will move to its full weighting on 31 May 2002.

The second phase of the MSCI reweighting on 31 May 2002 may impact the market price of IAG Shares during the Buy-back Offer period. While this impact is not expected to be significant, sharemarkets are often volatile and there can be no certainty as to the direction or extent of the impact.

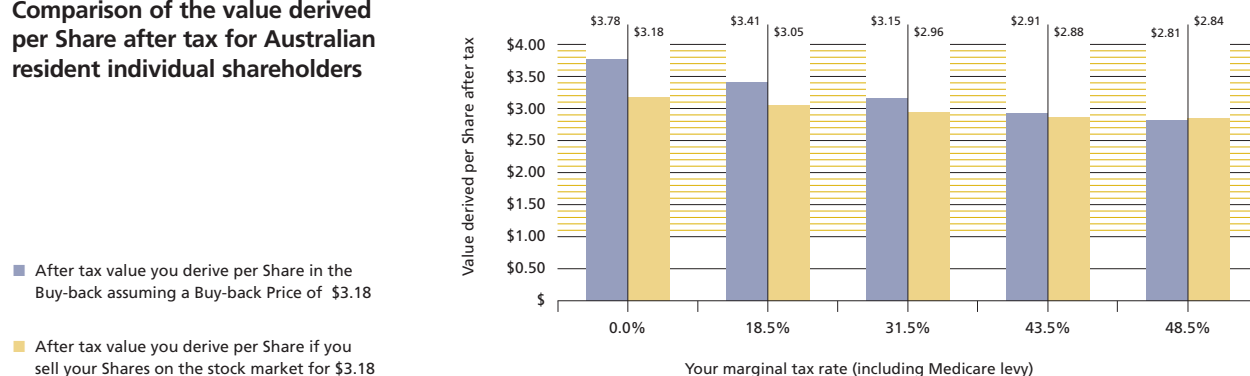
Tax considerations

Depending on your individual circumstances (including the marginal rate at which you pay tax), the tax implications of selling your Shares in the Buy-back may be more favourable than selling your Shares on the stock market. This occurs because a part of the Buy-back Price is a fully franked dividend.

Set out on the following page is a chart which shows you the difference in the value you would derive per Share (after tax) if you sold your Shares in the Buy-back and the value you would derive per Share (after tax) if you sold your Shares on the stock market, depending on your marginal tax rate. The chart on the following page also demonstrates how the tax implications of selling Shares in the Buy-back compared to selling Shares on the stock market could be more or less favourable for different shareholders with different marginal tax rates. You can use the table on the following page to work out your marginal tax rate.

The chart is based on a Buy-back Price of \$3.18 per Share and a sale price on the stock market of \$3.18 per Share. The Buy-back Price may be higher or lower than \$3.18 and the sale price on the stock market may be higher or lower than \$3.18. The amounts shown on the chart do not include any brokerage (or GST on brokerage) which you would have to pay if you sold your Shares on the stock market. For the purposes of calculating the value you would derive for the sale of your Shares on the stock market in the chart, **it is assumed** that your cost base for capital gains tax purposes is \$1.78 and that you are eligible for the CGT discount in respect of any capital gain you may make. Your cost base may be higher than \$1.78. The tax calculations for this chart can be found in the tables in section 5.

Comparison of the value derived per Share after tax for Australian resident individual shareholders



If you sell your Shares in the Buy-back you will receive a capital component of \$1.78. As the Australian Taxation Office has agreed that the cost base for capital gains tax purposes is \$1.78 for all Shares acquired in the Demutualisation, if you acquired your Shares in this way there will be no capital gains tax consequences.

If you did not acquire your Shares as a result of the Demutualisation (for example, any Shares you bought under the Listing Facility or on the stock market) you will generally have a cost base for each Share equal to the acquisition cost of the Share, plus any incidental costs of acquisition and disposal of the Share. Hence if you participate in the Buy-back a capital loss may arise, which can be offset against capital gains you realise in the same income year or in later income years.

The balance of the Buy-back Price above \$1.78 will be a fully franked dividend. However, if you sold your Shares on the stock market, assuming that you do not buy and sell Shares in the ordinary course of a business you carry on, all of the price you receive would be capital. As a result there is a difference in the tax treatment arising if you sell your Shares on the stock market. The differing tax treatment means that the after tax value you would derive from participating in the Buy-back will be different to the after tax value you derive from selling your Shares on the stock market for the same price. Depending on your particular circumstances (including your marginal tax rate), you may prefer to receive an amount of capital (or realise a capital loss) rather than receive a fully franked dividend. This may influence your decision to sell your Shares in the Buy-back or to sell your Shares on the stock market.

If you are an individual and you choose to sell your Shares in the Buy-back, the receipt of the 'franked dividend' component of the Buy-back Price effectively means you should be entitled to claim a tax rebate based on the franking credits on that franked dividend for the income year in which you receive the dividend. See section 1, question 16 for assistance in determining the income year in which you need to include the franked dividend and the franking credits attached to that franked dividend in your assessable income. If these franking credits exceed the total amount of your income tax payable, then you can claim a refund for the excess. If you take into account the value of these franking credits, the total value you derive after tax if you sell your Shares in the Buy-back may be higher than the Buy-back Price. Section 5 contains an example of how you would calculate the franking credits available to you.

If you are an individual, once you have held your Shares for 12 months, you only pay tax on half of any capital gain you make (after deducting capital losses).

Marginal tax rates for Australian resident individuals for the year ending 30 June 2002

Your taxable income for the year ended 30 June 2002	Marginal tax rate (including Medicare levy)
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\$0 - \$6,000	0%
\$6,001 - \$20,000	18.5%
\$20,001 - \$50,000	31.5%
\$50,001 - \$60,000	43.5%
\$60,001 and above	48.5%

For further information on the tax consequences of participating in the Buy-back, including information for corporate shareholders, see section 1, question 16 and section 5.

Section 3 How to accept the Buy-back Offer

Your Acceptance Form will be one of the following colours yellow, orange, grey or purple. The colour of the form you have received is based on the size and type of your shareholding. If you want to sell your Shares in the Buy-back, you should follow the instructions on the following page, for the particular colour Acceptance Form you have received. Detailed instructions for completion of the Acceptance Form are contained on the form. Please read these instructions carefully.

Type of holding

As at Record Date

Issuer sponsored holding

Broker sponsored CHESS holding

Your shareholding

Less than Marketable Parcel

Marketable parcel

Yellow Application Form

Grey Application Form

Orange Acceptance Form

Purple Acceptance Form

Issuer sponsored holdings

If you have received a Yellow or Grey Acceptance Form, you have an “issuer sponsored” holding. If you wish to sell Shares in the Buy-back, complete and return the Acceptance Form in the enclosed reply paid envelope to:

Mailing address

Insurance Australia Group Limited
Reply Paid 35
Eastern Suburbs MC NSW 2004

or

Delivery address only

ASX Perpetual Registrars Limited
Level 8
580 George Street
Sydney NSW 2000

You should ensure that your completed and signed Acceptance Form is sent so that it is received before 5.00pm (Sydney time) on the Closing Date. You should allow sufficient time for collection and delivery by Australia Post when you are returning your Acceptance Form.

**For Yellow
and Grey
Acceptance
Forms**

Broker sponsored CHESS holdings

If you have received an Orange or Purple Acceptance Form, you have a broker sponsored CHESS Holding. If you wish to sell Shares in the Buy-back, you should contact your broker and advise them how many of your Shares you wish to sell in the Buy-back.

You should contact your broker in sufficient time to enable them to process and communicate your acceptance by 5.00pm (Sydney time) on the Closing Date. It is up to your broker to determine whether you need to complete the Acceptance Form.

**For Orange
and Purple
Acceptance
Forms**

Broker and Non-Broker Participants

If you are a broker or Non-Broker Participant, you may only accept the Buy-back in accordance with the SCH Business Rules (as if the Buy-back Offer were a takeover offer for the purposes of the SCH Business Rules). Acceptances must be processed before 5.00pm (Sydney time) on the Closing Date.

What if I received more than one Acceptance Form?

If you have more than one holding of Shares, you will receive an Acceptance Form for each separate holding of Shares in IAG. If you wish to sell Shares in the Buy-back, you must follow the relevant instructions above (depending on whether your holdings are issuer sponsored or broker sponsored CHESS holdings) for each Acceptance Form which relates to each separate holding of Shares that you want to sell.

Can I withdraw my acceptance?

No. Once you have sent your Acceptance Form to the Registry or your broker has accepted the Buy-back Offer on your behalf, you will not be able to withdraw or revoke your acceptance or sell (other than to IAG) those Shares for which you have accepted the Buy-back Offer.

Can I transfer my rights to participate in the Buy-back?

No. Your rights to participate in the Buy-back are not transferable.

If you have any questions in relation to the Buy-back after reading this booklet please call the Buy-back Information Line on 1300 666 685.

Section 4 Effects of the Buy-back on the Group

IAG intends, having regard to its Share price, its need for capital, the amount raised by the RPS offer and market conditions at the Closing Date, to buy back Shares to a value in the order of \$300 million. Assuming that the Buy-back Price is \$3.18 this would result in a reduction in Shares on issue from 1,399,560,924 (as at 31 December 2001) to 1,305,221,301 following the Buy-back. The number of Shares on issue at 31 December 2001 has been adjusted to include 121,550 Shares which were issued on 8 March 2002 as the final issue of Shares relating to the resolution of queries over entitlements to Shares on Demutualisation of NRMA Insurance Limited in July 2000. IAG has a wide discretion under the terms of the Buy-back (see section 6) to buy back Shares to a greater or lesser value than \$300 million, subject always to the Buy-back Limit.



Funding of the Buy-back

IAG proposes to finance the Buy-back from the net proceeds of the RPS issue of up to \$300 million (or potentially up to \$350 million) that will be conducted in May 2002.

NRMA Insurance Limited, a wholly owned subsidiary of IAG, currently has a Standard & Poor's Rating Services ("S&P") Insurer Financial Strength Rating of AA+ and a Long-Term Counterparty Credit Rating* of AA+/Negative Outlook. S&P has affirmed these ratings on 26 April 2002.

* A S&P Insurer Financial Strength Rating is not a recommendation to purchase or discontinue any policy or contract issued by an insurer or to buy, hold or sell any security issued by an insurer. A S&P Long-Term Counterparty Credit Rating (or a S&P issue credit rating) is not a recommendation to purchase, sell or hold a financial obligation issued by an obligor, as it does not comment on the market price or suitability for a particular investor.

Pro-forma financial information

The pro-forma financial information set out below assumes \$300 million is raised through the issue of the RPS and is used to finance the \$300 million Buy-back. It sets out the Group's summarised consolidated balance sheet both before and after the RPS and the proposed Buy-back assuming the transactions had occurred on 31 December 2001.

Group summarised consolidated balance sheet	31/12/2001	Effect of issue of RPS	Effect of Buy-back	Combined effect pro-forma 31/12/2001
	\$million	\$million	\$million	\$million
Cash and investments	8,036	294	(303)	8,027
Other assets	2,013	-	-	2,013
Intangibles	643	-	-	643
Total assets	10,692	294	(303)	10,683
Claims outstanding and unearned premium	5,285	-	-	5,285
Borrowings and other liabilities	1,990	-	-	1,990
Total liabilities	7,275	-	-	7,275
Net assets	3,417	294	(303)	3,408
Share capital	2,687	-	(171)	2,516
Accumulated (losses)/retained profits	(117)	-	(132)	(249)
Reset preference shares	-	294	-	294
Outside equity interests	847	-	-	847
Total equity	3,417	294	(303)	3,408

Notes

- The precise financial impact of the issue of the RPS and the Buy-back on IAG will not be known until the total number of Shares to be bought back, the Buy-back Price and the dividend component of the Buy-back Price are determined. The assumptions for the pro-forma financial information are as follows:
 - The \$300 million Buy-back takes place at a Buy-back Price of \$3.18, comprising a capital component of \$1.78 per Share and a fully franked dividend component of \$1.40 per Share.
 - In relation to the Buy-back, it is assumed that \$300 million has been bought back. Assuming a Buy-back Price of \$3.18, this would result in a reduction in shareholders' equity of \$300 million and a reduction in Shares on issue from 1,399,560,924 (as at 31 December 2001) to 1,305,221,301 following the Buy-back. The Shares on issue includes 121,550 of Shares which were issued on 8 March 2002 as the final issue of Shares relating to the resolution of queries over entitlements to Shares on Demutualisation of NRMA Insurance Limited in July 2000.
 - The transaction costs of completing the RPS issue and the Buy-back have been incorporated into the pro-forma and are estimated at \$6 million and \$3 million respectively. The proceeds from the RPS issue of \$294 million is net of transaction expenses of \$6 million. The total cost of the Buy-back of \$303 million includes \$3 million of transaction expenses.
- In order to pay the dividend component of the Buy-back Price, IAG may rely on relief dated 14 February 2000, granted by ASIC. This order exempts IAG from compliance with certain sections of the Corporations Act whereby dividends paid by NRMA Insurance Limited to IAG out of pre-acquisition distributable reserves of NRMA Insurance Limited (i.e. the reserves at the time of acquisition of its shares by IAG on Demutualisation), can be treated as income by IAG. This order restricts the amount that can be paid and treated as dividend income out of pre-acquisition reserves to 20% of the reserves at acquisition. At 31 December 2001, IAG had utilised \$313 million of the original available total of \$575 million of distributable reserves.
- As at 31 December 2001 IAG (the parent entity) had retained profits of \$156 million.

Combined effect on EPS and return on equity

IAG intends to use the funds raised through the issue of the RPS to finance the Buy-back. The issue of the RPS will introduce a new class of equity to IAG, whilst the Buy-back will reduce IAG's ordinary share capital.

The precise effect of the Buy-back on earnings per Share and return on equity cannot be determined at present because the Buy-back Price, the number of Shares to be bought back and the dividend on the RPS will not be known until after completion of the Buy-back and the issue of the RPS. On a pro-forma basis, had the RPS and the Buy-back occurred on 1 July 2001, it would have had a negative impact on earnings per Share and return on equity for the period to 31 December 2001. This is principally due to a low return on equity in that period. However, the proposed Buy-back and the issue of the RPS are expected to improve IAG's earnings per Share and return on equity over time.

After the Buy-back, IAG will remain adequately capitalised and will continue to be able to pay all its debts as and when they become due and payable. There will be no change of control of IAG as a result of the Buy-back.

In connection with the Buy-back, IAG has agreed with the Australian Taxation Office to accept an additional \$0.135 debit to its franking account per Share bought back. IAG expects to continue to be in a position to fully frank any dividends for the foreseeable future.

Interim results announcement

In March 2002, IAG released its interim results. Included below is the press release issued on 1 March 2002.

Interim Results Announcement

Insurance Australia Group Limited (IAG) today announced a \$46 million increase in Net Profit After Tax to \$49 million for the six months ended 31 December 2001 (six months ended 31 December 2000: \$3 million*), despite one of the worst years on record for equity market returns, and an almost unprecedented series of disasters.

The result was achieved on the back of a 21 percent increase in insurance profit to \$125 million (six months ended 31 December 2000: \$103 million).

IAG Chief Executive Officer, Mr Michael Hawker said the most pleasing aspect of the result was the ongoing strong performance of the underlying insurance business, which saw the combined ratio drop to 97.6 percent.

"This is a good result for shareholders. Despite experiencing an almost unprecedented series of insured events in the past six months, our core insurance business performed strongly," Mr Hawker said.

"Our combined ratio was under 100 percent for the second consecutive six month period, and we increased market share in all of our core products.

"The performance reflects the work that has taken place in the past two years to improve operating efficiencies and reduce the cost of claims."

Interim result

Other elements of the interim result, compared with the prior comparative six month period, include:

- gross written premium up 17 percent to \$1.66 billion;
- net earned premium up 19 percent to \$1.57 billion; and
- underwriting result increased to a profit of \$37 million from a loss of \$26 million.

A fully franked interim dividend of 4.5 cents per share will be paid on 29 April to shareholders registered on 3 April (six months ended 31 December 2000: 4 cents per share).

The pre-tax result included several significant or one-off expenses, such as a total of \$90 million in net claims from the December bushfires, large storms and the September 11 World Trade Center attack, and litigation costs. These items were offset by profits from the sale of the building society and an increase in reinsurance recoveries from the valuation of the whole of account stop loss recoveries.

Mr Hawker said while the lower than expected investment income did affect the Group's NPAT result, the investment team provided an active return versus benchmark.

"We have taken steps to reduce the volatility of reported earnings by reducing the tracking error on our equities portfolio, and reducing the exposure of our technical reserves to Australian and international equities," Mr Hawker said.

Strategy and focus

Mr Hawker said IAG's strategy of expanding into new markets, new businesses and through acquisition was delivering positive results.

"The two acquisitions made last year are performing well and State Insurance is EPS positive six months ahead of schedule. Standard & Poor's has recently upgraded State Insurance to a AA+ (outlook negative) credit rating bringing it into line with NRMA Insurance Limited's rating. This is the highest rating of any non-government Australian based financial institution," Mr Hawker said.

"Our customers are responding positively to our initiatives in health and commercial insurance, and our recently launched ClearView Retirement Solutions.

"We remain focussed on growing our general insurance business, and expect to benefit from further rationalisation in the insurance industry.

"We will use our proven expertise in general insurance, the strength of our balance sheet, and our experienced management team to pursue further diversification opportunities in the future."

Mr Hawker also said he would review customer service throughout the business and invigorate the Group's commitment to corporate social responsibility.

"We are working towards simplifying our internal processes and reviewing our service standards across the Group to ensure they are of the highest quality," Mr Hawker said.

"A great deal of work has also gone into establishing a corporate social responsibility program, one aspect of which will see us work with communities to reduce our customers' insurable risk."

Capital management

In line with its commitment to create a more efficient capital structure, IAG's Board announced it was investigating opportunities to raise hybrid capital and to buy-back around \$300 million in ordinary shares.

"Supplementing ordinary shares with hybrid capital would move us closer to our target mix of capital while retaining our excellent financial strength," Mr Hawker said.

"A buy-back would also provide an opportunity for our shareholders to realise any profit on our shares should they choose to, without incurring any brokerage fees.

"We are still working out the details of the initiatives but would, if implemented, expect them to be completed by June this year.

"Both will depend on a review of current market conditions and relevant regulatory approvals."

If the company were to proceed with this initiative full details of terms and conditions of both the hybrid capital issue and the buy-back would be made available to all potential participants once developed.**

IAG owns some of Australia and New Zealand's leading brands - NRMA Insurance (New South Wales, Australian Capital Territory and Queensland), SGIO (Western Australia), SGIC (South Australia), and State Insurance and Circle (New Zealand). The Group recently launched ClearView Retirement Solutions.

* IAG (formerly NRMA Insurance Group Limited) commenced operations on 22 July 2000 when it acquired NRMA Insurance Limited and its controlled entities upon its demutualisation. The figures used above for comparative purposes represent a full six months of operation, including the three weeks prior to the acquisition of NRMA Insurance Limited by NRMA Insurance Group Limited.

** A disclosure document, if required, for the offer of hybrid capital securities will be made available if the hybrid securities are offered. Any investor wanting to acquire those securities would need to complete the application form that would be in, or accompany, the disclosure document.

A full copy of the interim results and related materials may be obtained from IAG's website at www.iag.com.au

Section 5 Australian tax implications for shareholders

The following comments:

- are a general guide to the Australian taxation consequences of selling your Shares in the Buy-back;
- may not apply to you if you buy and sell Shares in the ordinary course of a business you carry on (for example if you are a share trader); and
- are based on the law as enacted at the date of this booklet.

As the tax consequences of selling your Shares in the Buy-back will depend upon your particular circumstances you should seek your own tax advice in relation to the tax consequences of selling your Shares in the Buy-back.

Australian resident individual shareholder

Tax implications of receiving a fully franked dividend

If you are an Australian resident individual who sells Shares in the Buy-back, you will be deemed to have received a fully franked dividend equal to the difference between \$1.78 and the Buy-back Price for each Share you have sold in the Buy-back. You will generally be required to include this dividend and the franking credits attached to that dividend in your assessable income for the income year in which you receive payment for any Shares you sell in the Buy-back. See section 1, question 16 for when you may be required to include the dividend and the franking credits attached to the dividend in your assessable income for a different income year.

Subject to the comments on the following page regarding “qualified persons”, you can claim the franking credits as a rebate against income tax payable. If the amount of the franking credits exceed the income tax payable by you, you should receive a refund of the excess franking credits. To claim a refund of excess franking credits, you will need to lodge an income tax return for the income year in which you include the franking credits in your assessable income, even if your taxable income for that income year is below the threshold for paying tax.

Tax implications of receiving a capital return

The Buy-back of Shares by IAG also constitutes a disposal of the Shares for capital gains tax purposes. If you are an Australian resident individual who disposes of Shares, any capital gain is included in the calculation of your taxable income. If a capital loss is realised, it can be offset against capital gains you realise in the same income year or in later income years. If the Buy-back Date is on or before 30 June 2002, you will need to include any capital gain you make on the disposal of your Shares (or offset any capital loss you realise against capital gains you make) in calculating your 2001/02 taxable income. If the Buy-back Date is after 30 June 2002, you will need to include any capital gain (or offset any capital loss against capital gains you make) in calculating your 2002/03 taxable income.

Discount capital gains

If you have held your Shares for at least 12 months as at the time of the Buy-back, you will be eligible for the capital gains tax discount on any capital gain you derive. The effect of the discount is that you only pay tax on half of any capital gain you make (after deducting any capital losses).

Calculating a capital gain or loss

A capital gain or loss is calculated as the difference between the proceeds received on the disposal of the Shares and the cost base of the Shares (or reduced cost base if there is a capital loss).

If you sell your Shares in the Buy-back, you will be taken to have received \$1.78 as proceeds for the disposal of each Share.

For the purposes of calculating any capital gain or capital loss on a disposal of Shares you acquired as a result of the Demutualisation, you will be taken to have a cost base for each Share of \$1.78.

If you did not acquire your Shares as a result of the Demutualisation (for example, Shares you bought under the Listing Facility or on the stock market), you will generally have a cost base for each Share equal to the acquisition cost of the Share (for example, under the Listing Facility it was \$2.75), plus any incidental costs of acquisition and disposal of the Share.

Australian resident corporate shareholder

Tax implications of receiving a fully franked dividend

If you are an Australian resident company (or an entity taxed as if it were a company) who sells Shares in the Buy-back, you will be deemed to have received a fully franked dividend equal to the difference between \$1.78 and the Buy-back Price for each Share you have sold in the Buy-back. You will generally be required to include this dividend in your assessable income for the income year in which you receive payment for any Shares you sell in the Buy-back. See section 1, question 16 for when you may be required to include the dividend in your assessable income for a different income year.

Subject to the comments on the following page regarding “qualified persons”, you will generally also be entitled to a rebate of tax payable in respect of the dividend. As the dividend will be fully franked, you will also be required to credit your Class C franking account for the amount of the dividend.

Tax implications of receiving a capital return

As described above, the Buy-back of Shares by IAG also constitutes a disposal of the Shares for capital gains tax purposes. A capital gain or loss is calculated as the difference between the proceeds received on the disposal of the Shares and the cost base of the Shares (or reduced cost base if there is a capital loss). If the Buy-back Date is on or before 30 June 2002, you will

Table 1: Example tax calculations of participating in the Buy-back – Australian resident individual shareholders

Your marginal tax rate (including Medicare levy)	0%	18.5%	31.5%	43.5%	48.5%
Income tax calculation (per Share)					
Buy-back Price *	\$3.18	\$3.18	\$3.18	\$3.18	\$3.18
Less capital component	\$1.78	\$1.78	\$1.78	\$1.78	\$1.78
Deemed fully franked dividend	\$1.40	\$1.40	\$1.40	\$1.40	\$1.40
Add: gross up for franking credits (at 30% tax rate)	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60
Assessable income	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Tax on assessable income	\$0.00	(\$0.37)	(\$0.63)	(\$0.87)	(\$0.97)
Imputation credit	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60
Net tax (payable) credit	\$0.60	\$0.23	(\$0.03)	(\$0.27)	(\$0.37)
Buy-back Price *	\$3.18	\$3.18	\$3.18	\$3.18	\$3.18
After tax value you derive	\$3.78	\$3.41	\$3.15	\$2.91	\$2.81
Capital gains tax calculation (per Share)					
Deemed capital proceeds	\$1.78	\$1.78	\$1.78	\$1.78	\$1.78
Assumed cost base **	\$1.78	\$1.78	\$1.78	\$1.78	\$1.78
Capital gain (loss)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

- The Buy-back Price may be higher or lower than \$3.18
- The Australian Taxation Office has agreed that the cost base for capital gains tax purposes is \$1.78 for all Shares acquired in the Demutualisation. If you did not acquire your Shares as a result of the Demutualisation (for example, Shares you bought under the Listing Facility or on the stock market) you will generally have a cost base for each Share equal to the consideration you gave to acquire the Share (for example, under the Listing Facility it was \$2.75), plus any incidental costs of acquisition and disposal of the Share.

Table 2: Example tax calculations of participating in the Buy-back – Australian resident superannuation funds and corporates

Tax Rate	Superannuation Fund 15%	Corporate 30%
Income tax calculation (per Share)		
Buy-back Price *	\$3.18	\$3.18
Less capital component	\$1.78	\$1.78
Deemed fully franked dividend	\$1.40	\$1.40
Add: gross up for franking credits (at 30% tax rate)	\$0.60	\$0.00
Assessable income	\$2.00	\$1.40
Tax on assessable income	(\$0.30)	(\$0.42)
Imputation credit/intercorporate dividend rebate	\$0.60	\$0.42
Net tax (payable) credit	\$0.30	\$0.00
Buy-back Price *	\$3.18	\$3.18
After tax value you derive	\$3.48	\$3.18
Capital gains tax calculation (per Share)		
Deemed capital proceeds	\$1.78	\$2.75
Assumed cost base **	\$2.75	\$2.75
Capital gain (loss)	(\$0.97)	\$0.00

- The Buy-back Price may be higher or lower than \$3.18
- The table assumes a cost base of \$2.75. You will generally have a cost base for each Share equal to the consideration you gave to acquire the Share, plus any incidental costs of acquisition and disposal of the Share.

Sale of your Shares on the stock market

Set out in the tables below are examples of the after tax value you would derive per Share if you sold your Shares on the stock market for \$3.18.

Table 3: Tax implications of selling your Shares on the stock market – Australian resident individual shareholders

Your marginal tax rate (including Medicare levy)	0%	18.5%	31.5%	43.5%	48.5%
On-market capital gains tax calculation (per Share)					
Capital proceeds	\$3.18	\$3.18	\$3.18	\$3.18	\$3.18
Assumed cost base •	\$1.78	\$1.78	\$1.78	\$1.78	\$1.78
Capital gain	\$1.40	\$1.40	\$1.40	\$1.40	\$1.40
Tax payable on capital gain ••	\$0.00	(\$0.13)	(\$0.22)	(\$0.30)	(\$0.34)
After tax value you derive	\$3.18	\$3.05	\$2.96	\$2.88	\$2.84

- The Australian Taxation Office has agreed that the cost base for capital gains tax purposes is \$1.78 for all Shares acquired in the Demutualisation. If you did not acquire your Shares as a result of the Demutualisation (for example, Shares you bought under the Listing Facility or on the stock market) you will generally have a cost base for each Share equal to the consideration you gave to acquire the Share (for example, under the Listing Facility it was \$2.75), plus any incidental costs of acquisition and disposal of the Share.
- The table assumes you have held your Shares for at least 12 months.

Table 4: Tax implications of selling your Shares on the stock market – Australian resident superannuation funds and corporates

Tax Rate	Superannuation Fund 15%	Corporate 30%
On-market capital gains tax calculation (per Share)		
Capital proceeds	\$3.18	\$3.18
Assumed cost base •	\$2.75	\$2.75
Capital gain	\$0.43	\$0.43
Tax payable on capital gain ••	(\$0.04)	(\$0.13)
After tax value you derive	\$3.14	\$3.05

- The table assumes a cost base of \$2.75. You will generally have a cost base for each Share equal to the consideration you gave to acquire the Share, plus any incidental costs of acquisition and disposal of the Share.
- The table assumes you have held your Shares for at least 12 months.

Section 6 Buy-back Offer Terms and Conditions

buy-back
offer
terms
and conditions

1 The Buy-back Offer

1.1 The Offer

IAG invites you to sell your Shares to IAG on the Terms and Conditions set out below. The number of Shares which IAG will buy back from you will be determined in accordance with paragraph 1.2*.

** There is a prohibition on dealing with Shares held by the Trustee of the IAG Share Plans on behalf of IAG employees or Directors. Accordingly, those Shares are not eligible to be sold in the Buy-back.*

1.2 The minimum and maximum Buy-back amount and scaleback

You may nominate for sale in the Buy-back:

- if your shareholding in IAG is less than a Marketable Parcel, all of your Shares; or
- if your shareholding in IAG is a Marketable Parcel, some or all of your Shares.

The maximum number of Shares which IAG will buy back as a result of the Offer will be no more than 10% of the smallest number of votes attaching to voting Shares on issue at any time during the 12 months prior to the opening of the Offer (being 139,915,959 Shares). However, IAG may choose to buy back a lesser number (or value) of Shares at its absolute discretion, or it may choose not to buy back any Shares where it considers it appropriate. In these terms the total number (or value) of Shares IAG decides to buy back is referred to as the "Buy-back Limit".

If the total number (or value) of Shares for which acceptances are received exceeds the Buy-back Limit, then there will be a scaleback of acceptances so that the Buy-back Limit is not exceeded. The scaleback procedure will operate as follows:

- (a) Subject to paragraphs 1.2(c) and (d) below, IAG will buy back the first 1,500 of the Shares for which you accept the Offer. If the number of Shares for which you accept the Offer is less than 1,500, then IAG will buy back that number.
- (b) If you accept the Offer in respect of more than 1,500 Shares, IAG (in addition to buying back the first 1,500 of your Shares) will buy back the same percentage of the Shares for which you accept the Offer (in excess of 1,500 Shares) that it buys back from each other shareholder who accepts the Offer in respect of more than 1,500 Shares, such that the total number of Shares that IAG buys back does not exceed the Buy-back Limit.
- (c) If by buying back the first 1,500 Shares of each shareholder who accepts the Offer, IAG would exceed the Buy-back Limit, then IAG will buy back less than the first 1,500 Shares from each of those shareholders.
- (d) The scaleback is subject to an adjustment to ensure that:
 - (i) if your shareholding in IAG is less than a Marketable Parcel and you accept the Offer for any or all of your Shares, all of your Shares will be bought back; and
 - (ii) if you accept the Offer for all of your Shares and would have a shareholding of less than a Marketable Parcel created as a result of the scaleback procedure referred to in paragraphs (a) to (c) above, then all of your Shares will be bought back.

In calculating the number of your Shares which will be bought back, all fractions will be rounded downwards. Any scaleback required will be calculated after the close of the Offer Period and announced no later than 3 business days after the Closing Date.

1.3 The Buy-back Price

The Buy-back Price that IAG will pay for each Share bought back is \$3.18 (being the volume weighted average price over the five trading days before 1 March 2002, adjusted to an ex-dividend basis), adjusted for the percentage change in the S&P/ASX 200 Index from the opening of trading on 1 March 2002 to the close of trading on the Closing Date, and rounded to the nearest cent.

The formula for calculating the Buy-back Price is:
$$\$3.18 \times \frac{\text{Closing level of S\&P/ASX 200 Index on the Closing Date}}{3414.0}$$

where 3414.0 was the opening level of the S&P/ASX 200 Index on 1 March 2002.

The Directors may make a further adjustment to the Buy-back Price at their discretion if they believe on reasonable grounds that the movement in the S&P/ASX 200 Index from the opening of trading on 1 March 2002 to the close of trading on the Closing Date does not adequately reflect the movement in the market price of Shares over the same period.

1.4 Entitlement to the Offer

Your rights under the Offer are personal and may not be transferred by you.

2 The Offer Period

The Offer will be open for acceptance during the period commencing at 9.00 am on 27 May 2002 and ending at 5.00 pm (Sydney time) on the Closing Date. IAG reserves the right to extend the Offer Period without notice.

3 How to decline the Offer

If you do not want to sell your Shares in the Buy-back, do nothing. If you do not accept the Offer, the number of Shares you hold will not change as a result of the Buy-back.

4 How to accept the Buy-back Offer

Detailed instructions for completion of the Acceptance Form are to be found on the form. Please read these instructions carefully.

4.1 Issuer sponsored holdings

If you have an issuer sponsored holding you should have received a Yellow or Grey Acceptance Form. If you wish to accept the Offer, you should complete and return the enclosed Issuer Sponsored Holders Acceptance Form to:

Mailing address

Insurance Australia Group Limited
Reply Paid 35
Eastern Suburbs MC NSW 2004

or

Delivery address only

ASX Perpetual Registrars Limited
Level 8
580 George Street
Sydney NSW 2000

You should ensure that your completed and signed Acceptance Form is sent so that it is received before 5.00pm (Sydney time) on the Closing Date. If you are returning your Acceptance Form by post, you should allow sufficient time for that to occur.

4.2 CHESS holdings

If you have a broker sponsored CHESS holding you should have received an Orange or Purple Acceptance Form. If you wish to accept the Offer, you should do so by contacting your broker. Usually, this is the broker through whom you purchased your Shares.

You will need to advise your broker how many of your Shares you wish to sell to IAG under the Offer (unless you hold less than a Marketable Parcel, in which case you may only accept in respect of all of your Shares). You should do this in sufficient time to enable your broker to process and communicate your acceptance by 5.00pm (Sydney time) on the Closing Date.

A CHESS Holders Acceptance Form is enclosed. It is up to your broker to determine whether you need to complete the Acceptance Form.

Broker and Non-Broker Participants

If you are a broker or Non-Broker Participant, you may only accept the Offer in accordance with the SCH Business Rules (as if the Buy-back Offer were a takeover offer for the purposes of the SCH Business Rules). Acceptances must be processed before 5.00pm (Sydney time) on the Closing Date.

5 Effect of the acceptance of the Offer

5.1 No withdrawal

Once you have accepted the Offer, you cannot withdraw, revoke or vary your acceptance.

5.2 Deemed acceptances

If you purport to accept the Offer for more than 100% of your Shares, you will be deemed to have accepted the Offer for a maximum of 100% of your Shares.

If your shareholding in IAG is less than a Marketable Parcel and you purport to accept the Offer for less than 100% of your Shares, you will be deemed to have accepted the Offer for 100% of your Shares.

IAG may, at its sole discretion, at any time deem any acceptance it receives to be a valid acceptance, or disregard any acceptance, as IAG determines appropriate, and may waive any or all of the requirements for acceptance of the Offer.

5.3 Effect of acceptance

By accepting the Offer as described in paragraph 4 above, you will have irrevocably and unconditionally:

- (a) agreed that IAG will buy back from you and you will sell to IAG, on the Buy-back Date, the number of Shares determined under paragraph 1 of the Offer for the Buy-back Price per Share;
- (b) warranted to IAG that as at the time of acceptance and on the Buy-back Date that you are the registered holder of the Shares for which you have accepted the Offer and those Shares are free from any mortgage, charge, lien or other encumbrance (whether legal or equitable) and from any third party rights;
- (c) authorised IAG (and its officers or agents) to correct any error in or omission from your Acceptance Form and to complete the Acceptance Form by the insertion of any missing details;
- (d) agreed not to sell any of your Shares to a person other than IAG such that your shareholding is reduced below the number of Shares for which you have accepted the Offer (including any Shares for which your acceptance has been deemed under paragraph 5.2);
- (e) agreed that damages are not an adequate remedy for a breach of paragraph 5.3(d), and if you sell Shares in breach of that paragraph, you will be deemed to have appointed IAG or its agent as your attorney to purchase Shares in your name and at your expense to satisfy your obligations under the Offer, and you will indemnify IAG for all costs incurred by it in connection with any such purchase;
- (f) acknowledged that IAG may, at any time, determine that your Acceptance Form is valid, in accordance with the Terms and Conditions, even if the Acceptance Form is incomplete, contains errors or is otherwise defective;
- (g) accepted the risk associated with payment being despatched to you by cheque to the address shown on IAG's register (or any other address notified by you in writing in accordance with paragraph 6 below);
- (h) acknowledged that neither IAG nor any other party involved in the Buy-back has provided you with financial product advice, or has any obligation to provide this advice, concerning your decision to participate in the Buy-back;
- (i) authorised IAG, before or after the registration of the transfer of your Shares, to transmit the Shares to any register maintained by IAG which IAG in its absolute discretion considers desirable; and
- (j) otherwise agreed to the Terms and Conditions.

The performance by IAG of its obligations to buy back Shares is conditional upon your compliance with this paragraph 5.3.

6 Payment of the Buy-back Price

After determination of the Buy-back Price and the number of Shares to be bought back, IAG will send you a cheque in Australian currency for the proceeds of sale of any Shares you sell to IAG in the Buy-back.

Unless written advice to the contrary is received by the Share Registry by 5.00 pm (Sydney time) on the Closing Date, cheques will be sent to your address as shown in IAG's register of shareholders as at the Closing Date.

7 Miscellaneous

7.1 Stamp duty

Stamp duty will not be payable on the Buy-back of your Shares following your acceptance of the Offer.

7.2 Governing law

The Offer, any acceptance of the Offer and any Buy-back agreement entered into as a result of the Offer will be governed by the laws of New South Wales, and are to be interpreted in accordance with their spirit, intention and purpose.

8 Interpretation

8.1 The Glossary in section 8 applies to these terms and each Acceptance Form.

8.2 In these Terms and Conditions, unless the context otherwise requires, a reference to a paragraph is a reference to a paragraph in these terms.

Section 7 Other information



IAG constitution - 5% shareholding limitation

There is a limitation under Article 6 of IAG's constitution, on any shareholder having a relevant interest in more than 5% of the total number of voting shares in IAG. This limitation applies for five years from listing (unless amended by special resolution of shareholders).

This shareholding limitation does not apply to:

- IAG or a subsidiary of IAG, with the proviso that any votes cast on shares held by IAG (or a subsidiary of IAG) above the limitation will be disregarded;
- a person in respect of whom the IAG Directors have passed a resolution, with approval of shareholders by ordinary resolution, which stipulates a maximum number of shares up to 15% of the total number of shares, in which case the limitation will be that maximum number; and
- any person excluded from the operation of the prohibition by special resolution of shareholders (where that person and their associates do not vote on the resolution).

As at the date of this booklet, there is no person in any of these categories.

Any person who has a relevant interest in, or acquires a relevant interest in, shares that exceed the prescribed limit ("default shares") may, at the Director's discretion, be given a notice by the Directors:

- specifying the number of default shares; and
- requiring the disposal of the default shares within the period specified in the notice.

"Relevant interest" in this context has the same meaning as it has for the purposes of Chapter 6 of the Corporations Act.

If an allotment and issue of shares arises from the exercise, conversion or paying up of a quoted security or a quoted right which might result in a contravention of a notice given to the holder of default shares, IAG may allot and issue the shares to a nominee selected by it, on terms that require the nominee to arrange for the disposal of the shares for the benefit of the person to whom the shares would otherwise be issued.

As the Buy-back will reduce the number of Shares on issue, the proportional shareholding of shareholders who do not participate in the Buy-back will increase marginally. If, simply as a result of that increase alone, a shareholder's relevant interest in IAG's voting shares (based on that shareholder's relevant interest as at the Record Date) would increase so that it exceeds the 5% threshold referred to in Article 6 of IAG's constitution after the Buy-back, the IAG Directors do not intend to exercise their discretion to require the disposal of shares held in excess of the 5% threshold, provided that those shares have not been acquired after the Record Date.

Privacy Act

Chapter 2C of the Corporations Act 2001 requires information about you (including your name, address and details of the Shares you hold) to be included in IAG's public register. This information must continue to be included in IAG's public register if you cease to be a shareholder. These statutory obligations are not altered by the Privacy Amendment (Private Sector) Act 2000.

Section 8 Glossary

Definitions In this booklet and the accompanying Acceptance Form, unless defined to the contrary:

Acceptance Form means the form of acceptance and transfer accompanying this booklet

ASIC means the Australian Securities and Investments Commission

ASX means Australian Stock Exchange Limited

Buy-back, Buy-back Offer or Offer means an offer to a shareholder of IAG to buy back up to 100% of their Shares in IAG in accordance with the Terms and Conditions in section 6

Buy-back Date means the date upon which completion of the Buy-back takes place, being 24 June 2002 or such other date that IAG determines

Buy-back Limit means the limit on the number or value of Shares to be bought back, determined by IAG as contemplated in section 6, paragraph 1.2 (including a determination, if applicable, that no Shares are to be bought back in which case any Buy-back agreements will lapse upon such determination, without liability to IAG)

Buy-back Offer Booklet means this booklet

Buy-back Price means the price determined in accordance with section 6, paragraph 1.3

CHESS Holding means a holding of Shares on the Clearing House Electronic Subregister System (CHESS) subregister of IAG

CGT means capital gains tax

Closing Date means 5.00pm (Sydney time) on 20 June 2002 or any other later date determined by IAG, at its discretion

Demutualisation means the conversion of NRMA Insurance Limited from a company limited by guarantee to a company limited by shares and the issue of Shares in IAG to former members of NRMA Insurance Limited on 24 July 2000

Directors means the directors of IAG

Group means IAG and its subsidiaries

IAG means Insurance Australia Group Limited (ABN 60 090 739 923), formerly NRMA Insurance Group Limited

IAG Share Plans means IAG's Allocation Share Plan for employees and/or the Non-Executive Directors Share Plan

Listing Facility means the facility established by the board of IAG to enable shareholders to buy or sell Shares before listing of IAG on ASX. The facility was described in detail in IAG's prospectus dated 23 June 2000

Marketable Parcel means the number of Shares which would have a value as at the Record Date of at least \$500, where the value of each Share is at the closing price on that day. The table below gives examples of the number of Shares that would constitute a Marketable Parcel, assuming different Share prices at the Record Date:

Closing Price at the Record Date	Number of Shares comprising a Marketable Parcel
\$3.18	158
\$3.20	157
\$3.25	154
\$3.30	152
\$3.35	150
\$3.40	148
\$3.45	145
\$3.50	143
\$3.55	141
\$3.60	139

Non-Broker Participant means large financial institutions that are not brokers, that can trade in their own right on CHESS

Offer – see "Buy-back", above

Offer Period means the period commencing at 9.00am on 27 May 2002 and ending at 5.00pm (Sydney time) on the Closing Date

Record Date means 15 May 2002

RPS means reset preference shares to be issued by IAG under the prospectus dated 6 May 2002, for an amount up to \$300 million with the ability to accept oversubscriptions up to \$50 million

SCH Business Rules means the business rules of the securities clearing house of ASX from time to time

Share Registry or Registry means ASX Perpetual Registrars Limited

Shares means fully paid ordinary shares in the capital of IAG

Terms and Conditions means terms and conditions as set out in section 6

Trustee means NRMA Share Plan Nominees Pty Ltd as the trustee of the IAG Bonus Equity, Allocation Share, Equity Share, NED Share and Performance Award Rights Plans Trust

Interpretation

In this booklet unless the context otherwise requires:

- (a) the singular includes the plural and vice versa;
- (b) words importing one gender include other genders;
- (c) terms defined in the Corporations Act have the meanings ascribed to them in the Corporations Act;
- (d) terms defined in the Income Tax Assessment Act 1936 or the Income Tax Assessment Act 1997 have the meanings ascribed to them in those Acts; and
- (e) a reference to a paragraph or section is a reference to a part of this booklet.

The postal acceptance rule does not apply to this Offer.

Corporate Directory**Registered Office**

Insurance Australia Group Limited
Level 21
388 George Street
Sydney NSW 2000
www.iag.com.au

Share Registry

ASX Perpetual Registrars Limited
Level 8
580 George Street
Sydney NSW 2000

Financial Advisers

Macquarie Equity Capital Markets Limited

Legal Advisers

Mallesons Stephen Jaques

Auditors

KPMG

If you have any questions in relation to the Buy-back after reading this booklet please call the Buy-back Information Line on 1300 666 685.

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923

IAGBB2

