

SHARE PURCHASE PLAN



Insurance Australia Group Limited ABN 60 090 739 923

This is an important document offering eligible shareholders the opportunity to buy up to \$5,000 worth of IAG ordinary shares without brokerage or transaction costs. If you are unsure about what to do, please contact your professional adviser. If you have any questions about the Share Purchase Plan after reading this booklet, please call the Share Purchase Plan information line on 1300 666 635 (telephone number if you are calling from outside Australia is +61 3 9415 4210).

27 February 2009

Dear Shareholder

On behalf of the Directors of Insurance Australia Group Limited (IAG), I am pleased to offer you the opportunity to participate in a Share Purchase Plan (SPP), allowing you to buy up to \$5,000 worth of IAG ordinary shares (Shares) without brokerage and transaction costs.

IAG recently conducted a placement of Shares to institutional investors, raising \$450 million (Placement). The SPP gives you a chance to increase your IAG shareholding at a price (Issue Price) which is the lesser of either:

- the same \$3.00 price per share as institutional investors paid in the Placement which was a 13.3% discount to the closing price of IAG shares on the day before the Placement, 17 February 2009; or
- a price equivalent to the average market price of IAG ordinary shares over five trading days from 30 March to 3 April 2009 inclusive.

Shares issued under this SPP will not be eligible for the 2009 interim dividend as announced yesterday, but will participate in any future dividend payments.

Funds raised through the SPP and the Placement will be used to improve IAG's capital mix, and to provide additional financial flexibility which the Directors consider to be prudent in these challenging market conditions.

Participation in the SPP is entirely voluntary. If you are an Eligible Shareholder, you may apply for a parcel of Shares valued at either \$5,000, \$4,000, \$3,000, or \$1,500 (Parcel) or you may do nothing. Subject to the Scaleback referred to below, the number of Shares allocated to you will be the value of the Parcel you apply and pay for divided by the Issue Price and rounded down to the nearest whole number.

Once the Issue Price has been finalised, it may be the case that the money you have sent us is slightly more than the cost of your Share allocation, but less than the cost of another single Share. In that case we will donate the residual application money of the Parcel you applied for to a charity or charities nominated by IAG.

If the total value of applications for Shares under the SPP is more than \$100 million, IAG may undertake a Scaleback. Should this happen you may be allocated Shares to a value which is less than the Parcel of Shares you applied for and the difference will be refunded to you.

On behalf of the Board, I invite you to consider this opportunity to increase your investment in IAG.

Yours sincerely

A handwritten signature in black ink that reads 'James Strong'.

James Strong

Chairman

KEY DATES*

18 February 2009

Record Date 7.00pm (Sydney time).

The date on which IAG determines Eligible Shareholders.

9 March 2009

Opening Date.

The date on which the SPP opens.

27 March 2009

Closing Date.

The date on which the SPP closes. Applications must be received by 5.00pm (Sydney time).

30 March - 3 April 2009

Pricing Period.

The dates during which the Issue Price for the Shares is determined.

6 April 2009

Scaleback.

The date on which any Scaleback is announced.

6 April 2009

Allotment Date.

The date on which Shares are allotted.

8 April 2009

Share Trading Date.

The date when Shares allocated under the SPP begin trading.

9 April 2009

Despatch Date.

The date on which transaction confirmations are expected to be sent to shareholders.

***Insurance Australia Group Limited has the discretion to alter some Key Dates.**

These materials do not constitute an offer of securities for sale in the United States or to "US persons" (as defined in Regulation S under the US Securities Act) and may not be sent or disseminated in, directly or indirectly, the United States or to any "US person" in any place. IAG's shares have not been and will not be registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or otherwise transferred in the United States or to any "US person" except in compliance with the registration requirements of the US Securities Act and any other applicable state securities laws or pursuant to an exemption from the registration requirements of the US Securities Act and applicable state securities laws.

INSTRUCTIONS

- If you would like to participate in the SPP, follow the step-by-step instructions on the back of the enclosed Application Form.
- To participate, you can make a payment by BPay® **or** complete the Application Form and provide a cheque or money order in accordance with the instructions on the Application Form.
- BPay® customers should use the Customer Reference Number (CRN) shown on the Application Form, which is required to identify your holding. **If you make your payment with BPay® you do not need to return your Application Form.**
- Cheques and money orders should be made payable to "IAG Share Purchase Plan" and sent with your Application Form in the reply paid envelope enclosed to Insurance Australia Group Limited, c/-Computershare Investor Services Pty Limited, GPO Box 253, Sydney NSW 2001. New Zealand holders will need to affix the appropriate postage. Deliveries can be made in person by visiting Computershare Investor Services Pty Limited, Level 3, 60 Carrington Street, Sydney NSW 2000.
- All payments and applications must be received no later than **5.00pm (Sydney time) on 27 March 2009.**
- **You will not be able to withdraw or revoke your application or BPay® payment once you have sent it in.**

TERMS AND CONDITIONS

IMPORTANT NOTICE: If you apply to participate in the SPP by completing and returning the Application Form or making a BPay® payment, you are accepting the risk that the market price of Shares may change between the Record Date, the date on which you send in an Application Form or make a BPay® payment and the Allotment Date. This means it is possible that, up to or after the Allotment Date, you may be able to buy Shares at a lower price than the Issue Price of Shares under this SPP.

We encourage you to seek your own professional advice regarding your participation in the SPP.

1 Offer timetable

- 1.1 This offer is dated, and taken to be made on, 18 February 2009.
- 1.2 The offer opens on 9 March 2009 and closes at 5.00pm (Sydney time) on 27 March 2009. Payment by BPay®, Application Forms and cheques or money orders may not be processed or may not be valid if they have not been received by IAG by this time.
- 1.3 The Shares are proposed to be allotted on 6 April 2009.
- 1.4 Any reduction in the allotments of Shares under the SPP will be announced on 6 April 2009. This could occur if IAG receives applications for more than \$100 million of Shares under the SPP (Scaleback). See section 6 for more information on how a Scaleback would work.
- 1.5 On or around 9 April 2009, IAG expects to send a transaction confirmation and, if applicable, a direct credit deposit to your nominated bank account or refund cheque as a result of a Scaleback being applied to your allotment.
- 1.6 IAG expects the Shares will commence trading on the ASX on 8 April 2009.
- 1.7 IAG can change, at any time, the timetable (even if the offer has opened, or BPay® or Application Forms have been received) by lodging a revised timetable with ASX.

2 Eligible Shareholders

- 2.1 You are an Eligible Shareholder and may participate in the SPP if you were a registered holder of IAG Shares with an address in Australia or New Zealand at 7.00pm (Sydney time) on 18 February 2009 unless:
 - a) you hold Shares on behalf of another person who resides outside Australia or New Zealand; or
 - b) you are a "US Person" as defined in Regulation S under the US Securities Act of 1933, or acting for the account or benefit of a US Person.
- 2.2 For the purposes of determining eligibility, joint holders of Shares are taken to be a single registered holder of Shares and the certification on the Application Form is taken to have been given by all joint holders.
- 2.3 Where a trustee or nominee is a registered holder of Shares and is expressly noted on the register as holding Shares on account of a beneficiary, the beneficiary will be taken to be the registered holder of those Shares. An application for Shares, certification or issue of Shares to the trustee or nominee will be taken to be an application or certification by, or an issue to, the beneficiary.
- 2.4 If you are an Eligible Shareholder, your rights under this offer are personal to you and non-renounceable, so you may not transfer them.

3 Applications for Shares

Limitations on applications

- 3.1 If you are an Eligible Shareholder, you may apply to buy the value of Shares you select on the Application Form.
- 3.2 This Parcel may be subject to rounding and a Scaleback (see sections 5 & 6).
- 3.3 Eligible Shareholders who receive more than one offer under the SPP (for example, because they hold Shares in more than one capacity) may apply on different Application Forms for more than one Parcel, but may not apply for Shares with an aggregate value of more than \$5,000.

Completing the Application Form and paying for Shares

- 3.4 If you would like to participate in the SPP, you must:
 - (a) make payment by BPay®; or
 - (b) complete the Application Form and provide a cheque or money order, in accordance with the instructions on the Application Form.

IAG's discretion regarding applications

- 3.5 IAG may accept or reject applications to buy Shares under the SPP, including (but not limited to) cases where:
 - (a) an Application Form is incorrectly completed, incomplete or otherwise determined by IAG to be invalid;
 - (b) a cheque is dishonoured or has not been completed correctly;
 - (c) a cheque or money order is not made out for the exact amount of the value selected on the Application Form;
 - (d) a BPay® payment is not received, or is incomplete or invalid;
 - (e) an applicant appears to be buying more than \$5,000 of Shares (in aggregate) at the Issue Price;
 - (f) an Application Form is received after the Closing Date. While IAG has discretion to accept late BPay® payments, Application Forms and cheques or money orders, there is no assurance that it will do so. Late BPay® payments may be refunded and Application Forms with payments, if not processed, may be returned to you at your registered address; or
 - (g) IAG believes an applicant is not an Eligible Shareholder (subject to compliance with any applicable Australian Securities and Investments Commission or ASX requirements).

Interest

- 3.6 No interest will be paid on any application money returned to you.

Significance of sending in an application

- 3.7 If you apply to participate in the SPP by submitting a BPay® payment or completing and returning the Application Form:
- (a) you acknowledge that you are an Eligible Shareholder;
 - (b) you confirm that you have not applied for more than \$5,000 of Shares under the SPP and any similar arrangement in the 12 months prior to your application, even though you may have received more than one offer under the SPP or received offers in more than one capacity under the SPP;
 - (c) you agree that your application is made on the Terms and Conditions of the SPP set out in this booklet and the Application Form;
 - (d) you accept that you will not be able to withdraw or revoke your application or BPay® payment once you have sent it in;
 - (e) you authorise IAG (and its officers or agents) to correct any error or omission in your Application Form and to complete the Application Form by the insertion of any missing details;
 - (f) you acknowledge that IAG may at any time determine that your Application Form is valid, in accordance with the Terms and Conditions, even if the Application Form is incomplete, contains errors or is otherwise defective;
 - (g) you accept the risk associated with any refund that may be sent to you by direct credit to your nominated account or cheque to your address shown on IAG's register;
 - (h) you are responsible for any dishonour fees or other costs IAG may incur in presenting a cheque for payment which is dishonoured;
 - (i) you acknowledge that neither IAG nor Computershare Investor Services Pty Limited has provided you with investment advice or financial product advice, and that neither has any obligation to provide this advice, concerning your decision to apply for and buy Shares;
 - (j) you acknowledge that IAG is not liable for any exercise of its discretions referred to in these Terms and Conditions; and
 - (k) you irrevocably and unconditionally agree to the Terms and Conditions and agree not to do any act or thing which would be contrary to the spirit, intention or purpose of the SPP.

4 Issue Price

- 4.1 You agree to pay the Issue Price per Share for the value of Shares you have selected on the Application Form.
- 4.2 The Issue Price will be the lower of the \$3.00 price per share paid by institutional investors in the Placement, or the average market price of IAG ordinary shares over five trading days from 30 March to 3 April 2009 inclusive, whichever is the lesser (Issue Price).

5. Rounding of Shares

- 5.1 If you apply for Shares under this SPP you will apply for a certain value rather than a certain number of Shares. Subject to these Terms & Conditions the number of Shares you are allocated will be determined by:
- (a) if there is no Scaleback applied to your allotment, dividing the value of the Parcel of Shares you have applied and paid for by the Issue Price ; or
 - (b) if there is a Scaleback applied to your allotment, dividing the value of Shares you have been allotted by the Issue Price.
- 5.2 If this calculation produces a fractional number, the number of Shares you will be allotted will be rounded down to the nearest whole number.

6 Scaleback

- 6.1 If IAG receives applications for more than \$100 million of Shares, it may in its discretion undertake a Scaleback to the extent and in the manner that it sees fit.
- 6.2 If there is a Scaleback you may not receive the full Parcel of Shares for which you have applied. If a Scaleback produces a fractional number when applied to your Parcel, the number of Shares you will be allotted will be rounded down to the nearest whole number of Shares.
- 6.3 In the event of a Scaleback the difference between the value of the Shares you are allocated (calculated at the Issue Price) and the amount you have paid to IAG, will be refunded to you by direct credit or cheque on or around 9 April 2009.

7 Donation to Charity

If no Scaleback is applied to your allotment, your allocation of shares will be rounded down to the nearest whole number of Shares and the residual value will be donated to a charity or charities nominated by IAG. The donated amount per application will always be less than the Issue Price for one Share.

8 The Shares

Shares issued under the SPP will rank equally with existing Shares quoted on ASX, with the same voting rights, dividend rights and other entitlements.

9 Waiver of compliance and withdrawal of the offer

- 9.1 IAG reserves the right to waive compliance with any provision of these Terms and Conditions.
- 9.2 IAG reserves the right to withdraw the offer at any time up to the Allotment Date.

10 Governing Law

These Terms and Conditions are governed by the laws in force in New South Wales and are to be interpreted in accordance with their spirit, intention and purpose.

11 Underwriting

The SPP will not be underwritten.

DIRECTORY

Registered office

Insurance Australia Group Limited
Level 26, 388 George Street
Sydney NSW 2000
www.iag.com.au

SPP information line 1300 666 635

Legal Advisers

Mallesons Stephen Jaques

Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000