

SMALL SHAREHOLDING SALE FACILITY – TERMS & CONDITIONS

1. Small shareholding Sale Facility (Sale Facility)

Insurance Australia Group Limited (**IAG**) is conducting a Sale Facility for less than marketable parcels of ordinary shares. The Sale Facility will be conducted under article 24 of the IAG Constitution and the Australian Securities Exchange (**ASX**) Listing Rule 15.13 and ASIC Class Order 08/10. The Sale Facility provides Eligible Shareholders (see section 3 below) with an opportunity to have their small shareholding of fully paid ordinary shares in IAG (**Ordinary Shares**) sold in the ordinary course of trading on ASX without incurring the normal fees associated with selling Ordinary Shares through the ASX, as IAG will pay all fees of the Sale Facility. IAG has appointed a broker (**Broker**) to sell Ordinary Shares on ASX under the Sale Facility.

If you want IAG to SELL your Ordinary Shares and send your proportion of sale proceeds to you under the Sale Facility, you do not need to do anything.

This document, in conjunction with the attached letter and the personalised Share Retention Form, is a Divestment Notice for the purposes of article 24.1 of the constitution of IAG (**Constitution**) which allows divestment of small parcels of Ordinary Shares.

If you want to KEEP your IAG Ordinary Shares you must return the enclosed Share Retention Form to IAG so it is received by no later than 5.00pm on 16 April 2013 (the Share Sale Facility Closing Date). If you do NOT return the enclosed Share Retention Form by the Share Sale Facility Closing Date, your Ordinary Shares WILL BE SOLD by IAG.

2. Reason for the Sale Facility

IAG values all shareholders, however IAG also recognises that holders with small holdings of Ordinary Shares may find it difficult or expensive to dispose of their Ordinary Shares in the usual way. Further, as IAG incurs administrative fees for maintaining shareholder accounts and distributing shareholder communications, irrespective of the number of Ordinary Shares held, the Sale Facility will assist IAG to reduce its administrative costs.

3. Eligible Shareholders

Eligible shareholders are those holding a less than marketable parcel of Ordinary Shares (as defined in section 4 below) as at 7.00pm on 25 February 2013 (the **Record Date**) and whose registered address is in Australia or New Zealand (**Eligible Shareholders**). IAG may determine that Eligible Shareholders will be ineligible to participate in the Sale Facility based on the country of their registered address as at the Offer Closing Date. Only Eligible Shareholders will be sent a letter and Share Retention Form from IAG advising them of their eligibility to participate in the Sale Facility. This letter and the Share Retention Form will be sent to the address registered on the shareholding at the Record Date. Additional restrictions on eligibility are set out in section 19 below.

4. Less than marketable parcel of Ordinary Shares.

The ASX considers a **less than marketable parcel** to be a holding worth less than \$500. Based on the closing price of Ordinary Shares on the Record Date, a less than marketable parcel is a holding of 87 Ordinary Shares or less.

5. Sale Facility participation

From 5 March 2013, Eligible Shareholders may elect whether or not to participate in the Sale Facility, IAG makes no recommendation as to whether you should sell your Ordinary Shares under the Sale Facility.

If you participate in the Sale Facility, IAG will pay the brokerage and handling fees for the sale of your Ordinary Shares.

If you want to keep your Ordinary Shares you must return the enclosed Share Retention Form to IAG so it is received by 5.00pm on 16 April 2013.

If you want IAG to SELL all of your Ordinary Shares under the Sale Facility and remit to you the proceeds of sale of your Ordinary Shares (**Sale Proceeds**), you do not need to do anything. **If you do nothing** then IAG will sell all of your Ordinary Shares under the Sale Facility and remit the sale proceeds to you.

IAG will not sell your Ordinary Shares under the Sale Facility if:

- i) you acquire additional Ordinary Shares or

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ii) additional Ordinary Shares are issued to you pursuant to your participation in the existing Dividend Reinvestment Plan (DRP) before market close on 16 April 2013, and that increases the number of Ordinary Shares in your shareholding to be 88 Ordinary Shares or more (ie so that you no longer have a less than marketable parcel of Ordinary Shares)..

This Sale Facility is not the only way to sell your Ordinary Shares as you can also sell your Ordinary Shares through the ASX by contacting a broker. If you do that, you may incur fees and costs for that sale.

You should seek independent legal, tax, and financial advice specific to your circumstances when determining whether to participate in the Sale Facility, or to otherwise retain or sell your Ordinary Shares.

6. To keep your IAG Ordinary Shares.

If you wish to **KEEP** your Ordinary Shares you have three options:

- You must return the enclosed Share Retention Form to IAG so it is received by 5.00pm on 16 April 2013; **OR**
- You must increase the number of Ordinary Shares you hold, by either:
 - i) purchasing further Ordinary Shares on market; or
 - ii) participating in the existing Dividend Reinvestment Plan (DRP)so that the number of shares you hold, in your shareholding account on the register, is 88 shares or more before market close on 16 April 2013; **OR**
- If you hold more than \$500 worth of Ordinary Shares but your holding is split between two or more shareholding accounts, provided the Ordinary Shares are held in the same name, you must combine your holding into one account before 5.00pm on 16 April 2013.

If you take one of these steps by 5.00pm on 16 April 2013 (the Share Sale Facility Closing Date) IAG will not sell your Ordinary Shares. The Sale Facility expires on that date.

If you do not take one of these steps before 5.00pm on 16 April 2013, IAG will sell all of your Ordinary Shares under the Sale Facility, pursuant to article 24 of the IAG Constitution and the provisions of ASX Listing Rule 15.13.

7. Ordinary Shares held in more than one name

If you are a joint holder of Ordinary Shares, IAG will not sell your Ordinary Shares if any one holder signs and returns the Share Retention Form to IAG so it is received by 5.00pm on 16 April 2013. IAG will consider this to be effective notice from all shareholders that the Ordinary Shares are to be retained.

8. To participate in the Sale Facility

If you are an Eligible Shareholder and you want IAG to sell your shareholding on your behalf under the Sale Facility, you do not need to do anything. To ensure you receive your Sale Proceeds, please refer to section 9

9. Price calculation and payment of sale proceeds

All Participating Shareholder who have their Ordinary Shares sold under the Sale Facility will receive the same price per Ordinary Share.

The price that you will receive for your Ordinary Shares sold through the Sale Facility may be an average price, and may differ from the actual sale proceeds for any individual Ordinary Share sold in the Sale Facility.

That average price is calculated based on the volume weighted average price based on the prices at which all Ordinary Shares in the Sale Facility were sold by the Broker in the ordinary course of trading on ASX (**Sale Price**).

Your Sale Proceeds will be calculated by multiplying the Sale Price by the number of your Ordinary Shares that were sold under the Sale Facility, rounded down to the nearest cent [for your aggregate parcel of shares].

Proceeds paid by direct credit to the Australian or New Zealand bank account recorded against your shareholding as at 16 April 2013 will be processed on or about 30 April 2013. If applicable, the current direct credit instruction registered to your shareholding as at the record date, 25 February 2013, is shown on the covering letter enclosed.

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If you do not have a direct credit instruction recorded on your shareholding by the Sale Facility closing date of 16 April 2013, the proceeds from the sale of your ordinary shares will be paid to you by cheque in Australian dollars. IAG will mail your cheque to you at your registered address on or about 30 April 2013.

10. Process for selling Ordinary Shares in the Sale Facility

If you use the Sale Facility, you cannot specify the process by which, or price at which, your Ordinary Shares will be sold.

The shares will be sold on the ASX in the ordinary course of trading, by IAG's appointed Broker. Your parcel of Ordinary Shares may be split and/or aggregated with other parcels of Ordinary Shares to be sold under the Sale Facility.

The sale of Ordinary Shares by the Broker on the ASX is expected to take place as soon as practicable after 16 April 2013 (the Share Sale Facility Closing Date). You cannot specify the date on which your Ordinary Shares will be sold.

If your Ordinary Shares are not sold within six weeks of 16 April 2013, IAG's right to sell your Ordinary Shares lapses and IAG will inform you if this occurs.

IAG discretion

IAG reserves the right to vary, delay or terminate the above process, including if market or other conditions are such that IAG considers that adhering to the process described above may have a material impact on the price at which ordinary shares trade on ASX or if IAG's directors believe that a more favourable price can be achieved for your ordinary shares by a different sale process. IAG has discretion to make decisions regarding administration and calculations under the Sale Facility. These discretions are subject to applicable laws, the ASX Listing Rules and the provisions of the IAG Constitution.

Computershare's role

IAG has appointed Computershare Investor Services Pty Limited (**CIS**) as its agent to carry out some of its obligations under these Terms and Conditions. IAG and CIS are not giving, and are not obliged to give, any advice to you. These Terms and Conditions do not constitute advice or a recommendation to sell or hold your Ordinary Shares, nor that this Sale Facility is the best way to sell your Ordinary Shares.

Special authorisations for IAG to do things necessary for the Sale Facility

IAG is irrevocably authorised, without further notice, by each Eligible Shareholder which participates in the Sale Facility (each a **Participating Shareholder**) to do all things (including to engage any third party (including brokers), receive all notices (including the Financial Services Guide (and any update of that document) which the Broker is required to provide under the Corporations Act 2001 Cth. This Financial Services Guide will be accessible on the IAG website (www.iag.com.au)) and execute all documents, including to effect any holding adjustment, securities transformation, securities transfer or other transmission or transaction in relation to an Eligible Shareholder's less than marketable parcel of Ordinary Shares, such as converting a CHESS holding to an issuer sponsored holding) to facilitate and administer the sale of the Ordinary Shares under the Sale Facility.

IF YOU DO NOT RETURN A SHARE RETENTION FORM, YOU ARE TAKEN TO HAVE AGREED TO THESE AUTHORISATIONS.

11. Important information - Sale Price of Ordinary Shares

The Sale Price under the Sale Facility will be influenced by market conditions prevailing at the time. It may be different to the price appearing in the newspaper or quoted by ASX on any day, and may be more or less than the actual price that is received by the Broker for the sale of that parcel of Ordinary Shares.

The Sale Price may be more or less than the actual market price at the time of sale and may not be the best price obtainable on the day on which the Ordinary Shares are sold or over the period in which the Ordinary Shares are sold. The market price of Ordinary Shares is subject to change from time to time.

Up to date information on the price of Ordinary Shares can be obtained from the daily press or through the ASX website (www.asx.com.au) by looking up IAG's code which is "IAG."

Disclaimers about pricing

None of IAG, CIS or the Broker provides any assurance as to what the price of the Ordinary Shares on ASX will be or what Sale Price you will receive for your Ordinary Shares if you allow your Ordinary Shares to be sold through the Sale Facility.

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The Sale Price of the Ordinary Shares will be calculated by IAG or a third party appointed by IAG and may not be challenged in the absence of manifest error.

12. Statements to confirm sale of Ordinary Shares

CIS will send you a transaction confirmation statement notifying you of the number of your Ordinary Shares sold through the Sale Facility, the Sale Price and the total Sale Proceeds you have received.

IAG expects that these documents will be despatched on or about 30 April 2013. You will need to keep these documents for your taxation records.

13. Timing of payment

Direct credit payments

The payment of Sale Proceeds is expected to be processed on or about 30 April 2013 and paid by direct credit to the New Zealand or Australian bank account recorded against your shareholding as at 16 April 2013.

Your current direct credit instruction, based on IAG's records as at the Record Date of 25 February 2013, is shown on the covering letter enclosed.

Cheque payments

If you do not have a direct credit instruction recorded on your shareholding by the Share Sale Facility Closing Date of 16 April 2013, the proceeds from the sale of your Ordinary Shares will be paid to you by cheque in Australian dollars. IAG expects to mail your cheque to you at your registered address on or about 30 April 2013.

Important information about payments

As noted above, IAG has some discretion to adjust these dates.

You will not receive any interest on any sale proceeds. Payment of any sale proceeds to Participating Shareholders is at the Participating Shareholders' risk.

14. New Zealand Shareholders - payment in New Zealand dollars

If you have a registered address in New Zealand, you are entitled to receive your Sale Proceeds in New Zealand dollars by direct credit to your bank account in New Zealand.

Exchange rate for conversion

The exchange rate that will be used to convert the Sale Proceeds from Australian dollars into New Zealand dollars will be the prevailing market rate on the date and time selected by IAG for conversion of the funds. It is anticipated that the exchange rate will be calculated at the conclusion of the sale process on or about 23 April 2013.

You bear the risk of any fluctuations in such rates, including risks relating to the particular date and time at which funds are converted, and IAG has no responsibility to you for the effect of any fluctuations in rates or the timing of conversion.

15. Ordinary Shares held through a broker holding

If you have a CHESS/Broker sponsored holding, your Ordinary Shares can still be sold under the Sale Facility. As provided in article 24.1(d) of the IAG Constitution, IAG may, without further notice, move your Ordinary Shares to an issuer sponsored holding to be sold under the Sale Facility.

16. Tax on sale proceeds

Tax may be payable on any gains you make on the sale of your Ordinary Shares. This will depend on your personal taxation circumstances. Please consult your personal tax adviser if you have questions about your personal taxation circumstances.

17. Withdrawing a Share Retention Form

If you lodge a Share Retention Form, but want to withdraw it - you must provide written notice to CIS, IAG's share registry so it is received no later than 5.00pm on 16 April 2013. Please ensure your request:

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- details the registered name and address of the shareholder;
- includes the Shareholder Reference Number (SRN) or Holder Identification Number (HIN);
- states that you wish to withdraw your Share Retention Form; and
- is signed by all holders of Ordinary Shares.

CIS's address is:

Computershare Investor Services Pty Limited,
Reply Paid 2115
Melbourne VIC 3001

18. Suspension, termination or re-scheduling of the Sale Facility

IAG reserves the right to suspend or terminate the Sale Facility at any time, without notice to you, for any reason. IAG also reserves the right to change any of the dates referred to in this letter by notice to the ASX.

In accordance with article 24.13 of the IAG Constitution, if a takeover bid for IAG is announced after the Sale Facility opens, no sales (or no further sales) will be made until after the close of offers made under the takeover bid.

19. Other restrictions on eligibility

IAG may determine that certain shareholders are ineligible to participate in the Sale Facility, at its discretion. As at the date of the attached letter, IAG does not consider the following shareholdings eligible to participate:

- shareholders with previous mail returned to the share registry and are flagged as 'lost' on the share register;
- shareholders with an 'employee class' of Ordinary Shares;
- shareholdings that are in the name of a nominee company or which are not beneficially owned by the registered shareholder; or
- shareholdings which are currently under administration such as deceased estates, liquidation proceedings, and bankruptcy.

IAG has no obligation to any shareholder to sell Ordinary Shares under the Sale Facility.

20. No financial advice and no recommendation

IAG, CIS and the Broker are not giving, and are not obliged to give, any advice to you. These terms and conditions and the attached letter do not constitute advice or a recommendation to sell or retain your Ordinary Shares, nor a representation that participating in the Sale Facility is the best way to sell your Ordinary Shares.

21. Important disclosures by the Broker

The Sale Facility is being arranged by IAG and not the Broker. In providing services to IAG in connection with the Sale Facility, the Broker is acting as an execution only broker and is not providing any services on behalf of, for, or to you or assuming or accepting any duty (whether as fiduciary, agent, trustee, custodian or otherwise) or responsibility to you.

The Broker together with its affiliates is full service financial institution engaged in various activities, which may include trading, financial advisory, investment management, investment research, principal investment, hedging, market making, margin lending, brokerage and other financial and non-financial activities and services including for which they have received or may receive customary fees and expenses, profits or other financial benefits. In the ordinary course of their various business activities, the Broker and its affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of IAG and/ or its affiliates, and/or persons and entities with relationships with the IAG and/or its affiliates.

22. More information

Please call the IAG Shareholder Information Line on 1300 378 748 or +613 9415 4159 if calling from outside Australia. You can email the IAG Investor Relations team at investor_relations@iag.com.au. Please include your full name and contact details when emailing.