

SMALL SHAREHOLDING SALE FACILITY TERMS AND CONDITIONS

Insurance Australia Group Limited (IAG) has established a small shareholding sale facility (Sale Facility) in accordance with article 24 of the IAG Constitution, Australian Securities Exchange (ASX) Listing Rule 15.13 and ASIC Class Order 08/10.

These terms and conditions (Terms and Conditions), the accompanying Share Retention Form and the attached letter:

- set out the terms and conditions under which the Sale Facility will operate; and
- constitute a “Divestment Notice” (as defined in article 24.14 of the IAG Constitution) for the purposes of article 24.1 of the IAG Constitution.

1. What is the Sale Facility?

The Sale Facility provides Eligible Shareholders (see section 3 below) with an opportunity to sell their holding of fully paid ordinary shares in IAG (**Shares**) on ASX without incurring the normal fees associated with selling Shares.

2. Why has IAG established the Sale Facility?

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

3. Who can participate in the Sale Facility?

Each shareholder:

- who held a Small Parcel (see section 4 below) of Shares as at 7.00pm Sydney time on 17 February 2017 (the **Record Date**);
- whose registered address is in Australia or New Zealand; and
- who is not otherwise determined by IAG to be ineligible to participate in the Sale Facility (see section 18 below).

Shareholders who meet those requirements are referred to as **Eligible Shareholders**. Only Eligible Shareholders will be sent the attached letter and Share Retention Form confirming their eligibility to participate in the Sale Facility. These Terms and Conditions, the letter and the Share Retention Form will be sent to the Eligible Shareholder’s registered address as at the Record Date.

4. What is a “Small Parcel” of Shares?

A “**Small Parcel**” of Shares is a shareholding worth less than AUD\$500. Based on the closing price of Shares on the Record Date of \$5.93, a Small Parcel of Shares is a holding of 84 Shares or less.

5. What should Eligible Shareholders do to participate in the Sale Facility and sell their Shares?

Eligible Shareholders who want their Shares to be sold in the Sale Facility at no cost do not need to take any action.

It is important to note that IAG makes no recommendation as to whether Eligible Shareholders should sell their Shares in the Sale Facility and these Terms and Conditions and the attached letter do not constitute advice or a recommendation to buy, hold or sell Shares. The Sale Facility is not the only way to sell Shares. Shares may also be sold through the ASX by contacting a broker.

IAG strongly recommends that Eligible Shareholders seek independent advice from a licenced advisor when determining whether to participate in the Sale Facility, or to otherwise retain or sell their Shares.

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6. What should Eligible Shareholders do if they do NOT want to participate in the Sale Facility and want to keep their Shares?

If Eligible Shareholders do not want to participate in the Sale Facility (because they want to keep their Shares), they **MUST** do one of the following by **5.00pm Sydney time on 7 April 2017**:

- ensure the enclosed Share Retention Form is received by IAG's share register, Computershare Investor Services Pty Limited (**Computershare**); **OR**
- increase the number of Shares they hold by purchasing further Shares so that the number of Shares they hold in their shareholding account on the register is 85 Shares or more; **OR**
- if they hold more than AUD\$500 worth of Shares but their holding is split between two or more shareholding accounts, provided the Shares are held in the same name, combine their holding into one account.

If an Eligible Shareholder takes one of these steps by 5.00pm Sydney time on 7 April 2017, IAG will not sell their Shares.

7. What happens if Shares are held in more than one name?

IAG will not sell Shares held by joint holders if any one holder signs and returns the Share Retention Form to Computershare so that it is received by 5.00pm Sydney time on 7 April 2017. IAG will consider this to be effective notice from all shareholders of the joint shareholding that the Shares are to be retained.

8. Can Share Retention Forms be withdrawn?

Yes. Eligible Shareholders wishing to withdraw their Share Retention Form must contact the IAG Shareholder Information Line on 1300 647 382 (within Australia) or +61 3 9415 4123 (Monday to Friday, 9.00am to 5.00pm Sydney time) to obtain instructions on how to withdraw their Share Retention Form.

9. What is the process for selling Shares in the Sale Facility?

Eligible Shareholders who participate in the Sale Facility (**Participating Shareholders**) cannot specify the process by which, or price at which, their Shares will be sold.

Participating Shareholders' Shares will be sold on the ASX in the ordinary course of trading by Goldman Sachs Australia Pty Ltd, IAG's appointed broker (**Broker**).

The sale of Shares by the Broker on the ASX is expected to take place as soon as practicable after 11 April 2017. Participating Shareholders cannot specify the date on which their Shares will be sold.

If Shares are not sold within six weeks of 7 April 2017, IAG's right to sell the Shares lapses. Participating Shareholders will be informed if this occurs.

10. Can IAG vary the process for selling Shares in the Sale Facility?

Yes - IAG reserves the right to vary, delay or terminate the process described in section 9 for any reason, including if market or other conditions are such that IAG considers that adhering to that process may have a material impact on the price at which Shares trade on ASX or if IAG believes that a more favourable price can be achieved for the 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.

11. What price will Participating Shareholders receive for Shares sold in the Sale Facility?

All Participating Shareholders will receive the same price per Share.

That price will be the volume weighted average price received by the Broker for all Shares sold in the Sale Facility in the ordinary course of trading on ASX (**Sale Price**) and will be announced on the ASX (**ASX Price Announcement**) as soon as practical after IAG has confirmed the Sale Price. This means that the Sale Price may be more or less than the actual price that is received by the Broker for the sale of any particular Share.

A Participating Shareholder's sale proceeds will be calculated by multiplying the Sale Price by the number of Participating Shareholder's Shares, rounded down to the nearest cent.

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12. What factors may influence the Sale Price?

The Sale Price will be influenced by market conditions prevailing at the time the Shares are sold. The market price of Shares changes from time to time. It may be different to the price appearing in the newspaper or quoted by ASX on any day and may not be the best price obtainable on the day on which the Shares are sold or over the period in which the Shares are sold.

Up-to-date information on the price of Shares can be obtained from the daily press, through www.iag.com.au or at www.asx.com.au (ASX code: IAG).

None of IAG, Computershare or the Broker provides any assurance as to what the price of the Shares on the ASX will be or what Sale Price will be received for Shares sold in the Sale Facility.

The Sale Price of the Shares sold in the Sale Facility may not be challenged in the absence of manifest error.

13. Will Participating Shareholders receive confirmation of the sale of their Shares?

Yes - Computershare will send Participating Shareholders a transaction confirmation statement notifying them of the number of their Shares sold in the Sale Facility, the Sale Price and the total sale proceeds they have received.

IAG expects that these statements will be despatched within 10 business days of the ASX Price Announcement. Participating Shareholders should keep these statements for their taxation records.

14. When and how will the sale proceeds be paid?

The sale proceeds will be paid within 10 business days of the ASX Price Announcement by:

- direct credit to the Australian or New Zealand bank account recorded against the Participating Shareholder's shareholding at 5.00pm Sydney time on 11 April 2017; or
- by cheque to each Participating Shareholder's registered address as at the Record Date in Australian dollars if no Australian or New Zealand bank account is recorded against the Participating Shareholder's shareholding at 5.00pm Sydney time on 11 April 2017.

Eligible Shareholders can change or provide their bank account details through Computershare's investor centre website at www.investorcentre.com.

15. Can the sale proceeds be paid to Participating Shareholders in New Zealand dollars?

If a Participating Shareholder has a New Zealand bank account recorded against their shareholding as at 5.00pm Sydney time on 11 April 2017, they will receive their sale proceeds in New Zealand dollars by direct credit to that bank account.

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 around the conclusion of the sale process.

16. Will tax be payable on the sale proceeds?

Tax may be payable on any gains Participating Shareholders make on the sale of their Shares under the Sale Facility. This will depend on their personal taxation circumstances. Participating Shareholders should consult their personal tax adviser if they have questions about their personal taxation circumstances.

17. Can the Sale Facility be suspended or terminated?

Yes - IAG reserves the right to suspend or terminate the Sale Facility at any time, without notice, for any reason. IAG also reserves the right to change any of the dates referred to in these Terms and Conditions by notice to the ASX.

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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.

18. What other restrictions are there on eligibility to participate in the Sale Facility?

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

IAG may determine that certain shareholders are ineligible to participate in the Sale Facility, at its discretion. As at the date of these Terms and Conditions, IAG considers the following shareholdings are not eligible to participate:

- shareholders with an 'employee class' of Shares; or
- shareholdings which are currently under administration such as deceased estates, liquidation proceedings, and bankruptcy.

Shareholders may confirm their eligibility by contacting the IAG Shareholder Information Line on 1300 647 382 (within Australia) or +61 3 9415 4123 (Monday to Friday, 9.00am to 5.00pm Sydney time).

19. What is Computershare's role?

IAG has appointed Computershare as its agent to carry out some of its obligations under these Terms and Conditions. IAG and Computershare are not giving, and are not obliged to give, any advice to you.

20. What special authorisations does IAG have in connection with the Sale Facility?

IAG is irrevocably authorised, without further notice, by each Participating Shareholder to do all things necessary to facilitate and administer the sale of the Shares in the Sale Facility. That includes:

- engaging any third party (including brokers);
- receiving 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 and which will be accessible on the IAG website (www.iag.com.au); and
- executing all documents, including to effect any holding adjustment, securities transformation, securities transfer or other transmission or transaction in relation to a Participating Shareholder's parcel of Shares, such as converting a CHESS holding to an issuer sponsored holding.

IF ELIGIBLE SHAREHOLDERS DO NOT RETURN A SHARE RETENTION FORM, THEY ARE TAKEN TO HAVE AGREED TO THESE AUTHORISATIONS AND THEIR SHARES WILL BE SOLD.

21. Important disclosures by the Broker

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

The Broker together with its affiliates is a 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 647 382 (within Australia) or +61 3 9415 4123 (Monday to Friday, 9.00am to 5:00pm Sydney time).