MEDIA RELEASE

Insurance Australia Group

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IAG announces details of off-market buy-back

Insurance Australia Group Limited (IAG) today unveiled details of an off-market buy-back tender for approximately $350 million of ordinary shares.

IAG Chief Financial Officer, Mr George Venardos said the buy-back was in the interests of shareholders and reflected the Group's very strong financial position.

"In line with our commitment to ensure our capital is managed efficiently, we consider an off-market buy-back to be the most appropriate way to return some excess capital to shareholders while maintaining a healthy balance sheet for the Group moving forward. We also recently raised our target dividend pay-out ratio to increase the ongoing release of capital to shareholders.

"The buy-back price will comprise a capital component of $1.78[*], with the balance being a fully franked dividend. This may provide some shareholders with tax advantages relative to an on-market sale of shares depending on the shareholders' individual circumstances. In addition, the buy-back provides an opportunity to sell shares without the need to appoint a stockbroker or pay brokerage.

"Following the buy-back, there will be no change to our very strong 'AA' Standard & Poor's insurer financial strength ratings for our core wholly owned operating entities, currently the highest rated of any Australian financial institution," Mr Venardos said.

IAG intends to buy back around $350 million of shares, representing approximately 4-5% of shares on issue, subject to the buy-back price. However, the final amount will be determined by IAG and is subject to market conditions and other terms and conditions as set out in the buy-back booklet.

All eligible shareholders on the register on 12 May 2004 will be invited to take part in the buy-back. Participation is voluntary.

The buy-back has been designed to ensure that all successful participants receive the same final price for their shares. A tender process will be used, under which eligible shareholders can offer to sell their shares at any of the specified prices within the tender range of $4.00 to $5.00 per share, or as a final price tender. By submitting a final price tender, shareholders opt to receive the price within the tender range that is determined by IAG as the buy-back price. The top of the tender range represents a 6.2% premium and the bottom of the range a 15.1% discount to the closing price of IAG's shares yesterday, 29 April 2004.

[*] In certain circumstances the capital component of the buy-back price may be deemed to be higher for tax purposes.

The final buy-back price will be the price within the range of $4.00 to $5.00 that enables IAG to purchase the amount of shares it wishes to buy back. If a shareholder tenders their shares at or below the buy-back price, or as a final price tender, their tender will be successful and their shares will be bought back, subject to any scale back. Shares tendered above the buy-back price will not be bought back.

If the total number of shares tendered at or below the buy-back price is greater than the number of shares IAG wants to buy, tenders will be scaled back. The scale back provisions have been designed so successful participants who tender all their shares will not be left with a small holding of shares.

Mr Venardos said, "The tender process provides flexibility for shareholders because they can tailor their level of participation to suit their own circumstances. It has been designed so successful shareholders will receive a price at or above the price they choose within the range, but under no circumstances will they receive a price that is lower than the price they choose."

The buy-back is expected to be open for four weeks from 24 May 2004. A buy-back booklet, which contains full terms and conditions of the buy-back, and a personalised tender form, will be mailed to eligible shareholders from 17 May 2004. The booklet will also be available at www.iag.com.au/buyback from this date.

Participation is voluntary and shareholders are encouraged to read the buy-back booklet in full and also consider seeking their own independent advice as to whether to participate.

For more information shareholders may contact IAG's buy-back information line on 1300 666 635 or visit www.iag.com.au/buyback.

Summary of key dates*

Date	Activity
6 May	Ex date. Shares commence trading on an ex buy-back basis. Cut-off date for franking entitlement under 45 day rule.
12 May	Record date. Shares held on this day are eligible to be sold in the buy-back.**
17 May	Mailing of buy-back booklets and tender forms commences.
24 May	Buy-back opens.
18 June	Buy-back closes – tenders must be received by 5.00pm (Sydney time).
21 June	Buy-back date – announcement of tender process outcome, including buy-back price.
28 June	Buy-back proceeds despatched to successful participants.

*These dates are subject to change.
**Subject to certain exclusions described in the buy-back booklet.

Insurance Australia Group is Australasia's leading general insurance group. The group includes some of Australia and New Zealand's most trusted brands – NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State Insurance and NZI.

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Appendix

Maximum Buy-back Price

The buy-back price will comprise a capital component of $1.78 with the balance being a fully franked dividend.

The ATO has recently released draft taxation determination TD2004/D1. A draft taxation determination represents the preliminary, though considered, views of the ATO. It is not a ruling and cannot be relied on by taxpayers. TD2004/D1 outlines a formula for determining the "market value" of a share sold in an off-market buy-back for the purposes of the Australian income tax legislation. The ATO indicates that the market value at the time of the buy-back should be determined as the volume weighted average closing price (VWACP) of the company's shares on ASX over the last five trading days before the first announcement of the buy-back adjusted for any change in the S&P/ASX 200 index from the commencement of trading on the first announcement date to the close of trading on the day the buy-back closes (expected to be 18 June 2004).

In circumstances where the market value as determined under TD2004/D1 is greater than the buy-back price as determined by IAG, the excess will be added to the capital component of the buy-back price for tax purposes. However, the payment shareholders receive for shares bought back will not change.

In circumstances where the purchase price in a buy-back is greater than the market value as determined under TD2004/D1, the excess will be treated as an unfranked dividend for tax purposes. However, in this buy-back, IAG will not buy back shares at a price greater than the market value ("Maximum Buy-back Price").

The method for determining the Maximum Buy-back Price is based on the formula provided by the ATO in TD2004/D1 for calculating the market value of a share sold in an off-market buy-back. IAG has received confirmation from the ATO that an appropriate method for determining the market value and therefore the Maximum Buy-back Price is:

- $$\frac{\$4.51 \times \text{closing level of S\&P/ASX 200 index on the Closing Date}}{3331.6}$$
  where 3331.6 was the opening level of the S&P/ASX 200 index on 26 February 2004; or

- such other number as determined in accordance with discussions between the ATO and IAG.

The ATO may agree to vary the method of determining the Maximum Buy-back Price in circumstances where the calculation set out above is no longer appropriate or to reflect particular circumstances arising during the tender period or matters particular to IAG.