
CHAIRMAN'S LETTER

4 November 2011

Dear Investor

On behalf of the directors, it is my pleasure to invite you to apply for Bonds issued by Insurance Australia Group Limited (**IAG**).

IAG intends to issue up to NZ\$150 million of Bonds with the ability to accept up to a further NZ\$175 million in oversubscriptions (**Offer**).

The benefits to Bondholders of the offer include:

- fixed quarterly interest payments as outlined in this Investment Statement;
- the opportunity to invest in Bonds issued by the ASX-listed parent of a leading general insurance group in Australia and New Zealand with a growing presence in Asia and a specialist underwriter in the United Kingdom (**Group**);
- listing and quotation on NZDX; and
- a credit rating of 'A-' assigned to the Bonds by Standard & Poor's.

In New Zealand, the Group's businesses, which include State and NZI, have a deep heritage dating back 150 years. These businesses are some of the country's leading providers of general insurance, distributing products both directly to customers and indirectly through insurance brokers and agents. The Bonds continue the Group's long, distinguished and proud association with New Zealand and represent IAG's first New Zealand public security offering.

The Offer forms part of IAG's prudent funding and capital management strategy which targets a diverse capital structure in terms of the amount, duration and quality of capital.

IAG's approach to capital management has enabled the Group to retain an above-benchmark capital position, despite the claim costs incurred by the Group associated with the recent concentration of natural perils. These events include the Christchurch earthquakes and weather related events in Australia. IAG manages the impact of such events through comprehensive high quality reinsurance cover and diversification of risk.

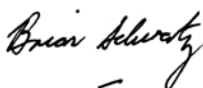
IAG has a right to redeem the Bonds on 15 December 2016 and quarterly thereafter until their legal maturity on 15 December 2036. IAG may also redeem the Bonds in certain other circumstances prior to maturity.

I encourage you to read this Investment Statement and the Prospectus carefully before deciding whether to invest in the Bonds.

The key dates of the Offer are summarised on page 13. We encourage you to lodge your application as soon as possible as interest will be payable on subscriptions from the day your application moneys are banked.

On behalf of the directors, I look forward to welcoming you as an investor in the Bonds.

Yours faithfully



Brian Schwartz
Chairman