

CHAIRMAN'S LETTER



19 MARCH 2012

Dear Investor,
On behalf of the Directors, it is my pleasure to invite you to apply for convertible preference shares ("**CPS**").

CPS are fully paid preference shares to be issued by IAG. An application will be made by IAG for CPS quotation on the ASX. CPS will pay semi-annual dividends at IAG's discretion and on the terms outlined in this Prospectus. Dividend payments are expected to be fully franked.

The terms of the CPS are more complex than a simple debt or ordinary equity instrument. Trading volumes in hybrid instruments such as CPS are typically lower than in IAG's ordinary shares.

IAG intends to raise \$350 million through the offer of CPS with the ability to raise more or less. IAG currently expects to buy back IAG's reset preference shares ("**RPS**") for their face value of \$100 each on 15 June 2012. If you currently hold RPS, you may be eligible to reinvest your RPS in CPS.

IAG is the ASX-listed parent of a group of general insurance businesses in Australia and New Zealand with a growing presence in Asia, and a specialist underwriter in the United Kingdom ("**Group**"). Over 90% of the Group's gross written premium is derived from its businesses in Australia and New Zealand.

The Group offers personal and commercial insurance products under some of the most well known brands in its markets including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia and State and NZI in New Zealand.

The offer of CPS 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 a strong capital position, despite a recent concentration of natural perils. IAG manages the impact of such events through high quality reinsurance cover and diversification of risk.

The CPS are unsecured and perpetual in nature. They may be redeemed or converted on 1 May 2017 and any later date chosen by IAG and, subject to certain conditions, will mandatorily convert into fully paid ordinary shares of IAG on 1 May 2019 unless they are redeemed or converted by IAG earlier. Additionally, APRA can require the CPS to convert if it considers that conversion is necessary to prevent IAG from becoming non-viable, or if IAG requires public sector capital support to remain viable. This may adversely affect your returns.

This Prospectus contains details of the CPS offer which you should read carefully. In particular, you should consider the risk factors set out in Section 5 before deciding whether to apply for CPS. If you have any questions about the CPS offer, please call the IAG CPS Offer Information Line on 1300 666 635 or +61 3 9415 4194 (Monday to Friday – 8:30am to 5:30pm) or contact your accountant, stockbroker or other professional adviser.

The key dates of the CPS offer are summarised on page 3. On behalf of the Directors, I look forward to welcoming you as a CPS investor.

BRIAN SCHWARTZ
CHAIRMAN