



21 May 2008

The Manager
Company Announcements
ASX Limited
Level 6
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

re: QBE withdraws IAG merger proposal

Please find attached an announcement for release to the market.

Yours faithfully,

A handwritten signature in dark ink that reads "D Ramsay".

Duncan Ramsay
Company Secretary
Direct: +612 9375 4422
Mobile: +61 (0)408 037 220
Fax: +612 9231 6104
Email: duncan.ramsay@qbe.com

Enc.

QBE INSURANCE GROUP LIMITED
ABN 28 008 485 014

Head Office
82 Pitt Street
Sydney NSW 2000
AUSTRALIA

Postal Address
GPO Box 82
Sydney NSW 2001
AUSTRALIA

Telephone: +61 (2) 9375 4444
Facsimile: +61 (2) 9231 6104
DX 10171 Sydney Stock Exchange



**QBE INSURANCE GROUP LIMITED
MARKET ANNOUNCEMENT**

QBE WITHDRAWS IAG MERGER PROPOSAL

QBE Insurance Group today advised that it has withdrawn its proposal for a merger with IAG after IAG's Board formally rejected QBE's proposal.

QBE understands its final proposal on price was well short of IAG's expectations.

This is despite QBE's proposal representing a very attractive premium of 22% to the closing price of IAG shares of \$3.79 on 9 April 2008 prior to our first discussion. It also represented a 25% premium to IAG's 1 month VWAP to 9 April 2008.

In addition, IAG's shareholders would have benefited from substantial earnings per share accretion in year 1 from the significant synergies and diversification benefits of the merged group, as well as QBE's higher profitability and strong track record.

QBE's proposal included key terms for a merger implementation deed; in particular, a request for mutual due diligence, clarification of IAG's 2008 final dividend and IAG Board recommendation.

QBE's Chief Executive Officer, Frank O'Halloran, said "QBE will now continue to focus on the pipeline of acquisitions that have been accumulating in recent months. The pipeline includes a range of opportunities in the Americas, Europe, Asia and Australia." He added "We will continue to adhere to QBE's strict acquisition criteria which have proven to be beneficial for shareholders over a long period of time."

21 May, 2008

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