

15 April 2008

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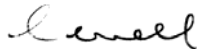
Dear Sir/Madam

**IAG FINANCE (NEW ZEALAND) LIMITED (IAN)**  
**IAG rejects QBE proposal – price inadequate**

Attached is an announcement lodged by QBE today, together with IAG's response.

IAG will keep holders of Reset Exchangeable Securities (RES) informed of any further developments.

Yours sincerely



Glenn Revell  
**Company Secretary**

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**QBE INSURANCE GROUP LIMITED  
MARKET ANNOUNCEMENT**

**QBE'S PROPOSED MERGER NOT ACCEPTABLE TO IAG**

To avoid further market speculation and constant questions from investors and others, QBE advised it approached IAG late last week regarding a possible merger between IAG and QBE through a scheme of arrangement, to be recommended by IAG's Board. IAG advised late yesterday that QBE's proposal is not acceptable.

QBE's proposal is 0.142 QBE shares and \$0.70 cash for each IAG share which is approximately 12% above IAG's share price using the last three months' volume weighted average prices (VWAP) of both companies. This premium is in addition to the acquisition premium which we believe the market considers is already built into the current and VWAP share price of IAG, as evidenced by IAG's higher price earnings multiple than other major listed Australian banks and general insurers, including QBE.

QBE's proposal is based on a total issued capital for IAG of no more than 1,891 million shares, on a fully diluted and change of control basis. It is subject to satisfactory due diligence, discussions with business relationship partners and signing of a merger implementation deed (which would contain conditions, such as APRA, ACCC, NZ Commerce Commission and other regulatory approvals). The proposal allows for IAG's shareholders to receive any 2008 final dividend provided it is the lesser of second half year profits or 15 cents per share.

QBE has advised IAG that its proposal is open until 5:00pm on Monday, 21 April 2008.

A merger is expected to realise significant pre-tax synergies and diversification benefits for all the shareholders in the enlarged QBE, consistent with previous transactions within the general insurance industry. Based on consensus estimates of analysts, it is anticipated to be substantially earnings per share accretive for IAG's shareholders in year 1 and earnings per share accretive for QBE's shareholders in year 1. QBE's initial estimates from a merger are annual net pre-tax synergies of around \$300 million by 2010 and diversification benefits from excess risk margins in outstanding claims of over \$400 million.

QBE decided to explore the merger with IAG prior to pursuing other opportunities in various parts of the world. QBE is committed to its proven strategy of growth and its focus on profitability, a strategy that has worked well over a long time.

Mr Frank O'Halloran, QBE's Chief Executive Officer, said "we approached IAG because we believe that a merger would be positive for both IAG and QBE shareholders. A merger would be transformational for both companies and create an enlarged group which would be in the top 15 global general insurers with a strong base in personal and commercial lines business in Australia."

He further added "we believe the combination of around 12% premium to the last three months' VWAP, the existing acquisition premium in IAG's share price and the merger synergies, together with our long track record of growth and profitability, will provide IAG and QBE shareholders with immediate and long term benefits."

15 April 2008

## IAG REJECTS QBE PROPOSAL – PRICE INADEQUATE

**Insurance Australia Group Limited (IAG) today confirmed that it had been approached by QBE with an unsolicited and incomplete proposal to take over the company by way of a scheme of arrangement. The IAG Board carefully considered the proposal and concluded that the broad terms, in particular the price, were inadequate.**

**As a result, the Board rejected the proposal as it was clear it was not one which was in the best interests of shareholders, and therefore not one it could recommend.**

IAG Chairman Mr James Strong said, "IAG is a unique asset with leading insurance franchises in Australia and New Zealand supported by a number of iconic brands. Whilst we recognise that the synergies available through a combination with QBE are considerable, the price needs to reflect the value that the IAG businesses would contribute to QBE, including the synergies to be generated.

"While QBE has claimed the proposal is a merger, the terms and the relative size of the businesses make it clear it is a takeover. In these circumstances, the price proposed, which represented only a 1% premium to the closing price on Friday, is totally inadequate.

"The QBE proposal seeks to take advantage of the current weakness in IAG's share price and does not reflect the long term prospects and value inherent in IAG. IAG refutes QBE's suggestion that its share price currently includes an acquisition premium. The current IAG share price reflects a low point in insurance cycles in our core markets and higher than normal frequency of severe weather events in the past year. These issues have been exacerbated by volatile investment markets and expansion of credit spreads."

Mr Strong said he was disappointed QBE had publicised a proposal which was incomplete and which QBE had requested IAG keep confidential. QBE first approached IAG late last week with a lower initial offer, which was also rejected.

The company has retained UBS AG and Mallesons to advise it in relation to this matter

IAG will keep shareholders informed of any further developments.

### Detailed timeline and price proposals

- At the request of QBE, the Chairmen and CEO's of IAG and QBE met on Thursday, 10 April 2008. During this meeting, QBE outlined a nil premium takeover proposal of 0.135 QBE shares plus \$0.50 cash for each IAG share, representing \$3.75 per IAG share based on the QBE share price at that time. During this meeting, the QBE representatives stressed that the proposal would be withdrawn if confidentiality was breached.
- QBE was informed on Friday, 11 April 2008 that its nil premium takeover proposal was unacceptable to the Board of IAG as it did not adequately reflect the value of IAG and the synergies available to QBE. On Friday evening, QBE responded with a confidential written proposal offering 0.142 QBE shares plus \$0.70 cash per IAG share, representing \$4.02 per IAG share, or a 1% premium, based on closing share prices on Friday.
- On Monday, 14 April 2008 IAG informed QBE that its revised takeover proposal still did not recognise the value of IAG or the synergies available to QBE from a takeover. On Monday afternoon, the QBE Chairman informed the IAG Chairman that, notwithstanding the confidential nature of the discussions, QBE intended to make its approach public.

ENDS

**About Insurance Australia Group Limited**

Insurance Australia Group Limited (IAG) is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite more than \$7.5 billion of premium per annum. It employs more than 16,000 people of which around 11,000 are in Australia. It sells insurance under many leading brands including NRMA Insurance, CGU, SGIO and SGIC (Australia); NZI and State (NZ); Equity Red Star and Hastings Direct (UK); and NZI and Safety (Thailand). For further information please visit [www.iag.com.au](http://www.iag.com.au)

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