

Changes proposed to Reset Exchangeable Securities

IAG Finance (New Zealand) Limited (Issuer), a subsidiary of Insurance Australia Group Limited (IAG), today announced a proposal to amend its contingent capital issue, the A\$550 million Reset Exchangeable Securities (RES), into an on-balance sheet Tier 1 eligible instrument. This is in line with IAG's commitment to actively manage and enhance its capital structure.

The RES (ASX:IANG) were issued in 2005 and are floating rate notes backed by a portfolio of high quality, short-dated securities.

The proposed amendments to the RES are designed to balance the interests of both the Group and RES holders.

Under the proposal, the amended RES would be brought on-balance sheet, and would qualify as regulatory capital and provide equity credit for rating purposes. This would strengthen IAG's regulatory capital position, with its minimum capital requirement (MCR) multiple increasing from 1.79 at 30 June 2009 to 2.03 on a pro forma basis.

In addition, as the amended RES would cease to be secured by the portfolio, the funds currently invested in the portfolio would be made available to the Group to invest in accordance with its investment mandate thereby providing flexibility around future funding requirements.

RES holders would benefit from a higher rate of return. The amended RES would offer an increased quarterly fully franked floating rate interest payment, with a margin of 4.00% per annum over the bank bill rate, up from the current 1.20% margin.

A new reset date in December 2019 would be introduced, in place of the existing March 2010 reset date. At that time, holders could request conversion of their amended RES, allowing the Issuer to elect whether to convert them to IAG ordinary shares or pay holders \$100 cash for each amended RES. The amended RES would, however, continue to be exchangeable, and could be exchanged at any time, into IAG preference shares on similar terms to the amended RES.

IAG's Chief Financial Officer and a Director of the Issuer, Mr Nicholas Hawkins, said he believed the proposal strikes the right balance between RES holders' and IAG shareholders' interests.

"The proposed amendments to the RES will strengthen the Group's capital position and provide additional financial flexibility which we see as prudent given the ongoing uncertainty in financial markets. RES holders will also benefit from an enhanced income stream and an opportunity for redemption or conversion on the new reset date," Mr Hawkins said.

Standard & Poor's (S&P) has indicated the amended RES will retain the current S&P credit rating of "A-".

The proposal is subject to RES holder approval, and requires 75% of votes cast at a meeting of RES holders to be in favour. The meeting is scheduled for 9 December 2009. Full details of the proposal will be mailed to RES holders from 4 November 2009.

If the proposal is not passed, the Issuer will not redeem or convert the RES on the existing reset date in March 2010. Rather, IAG will exercise its existing right to exchange each RES for one IAG preference share, prior to that date.

The Issuer's Directors recommend RES holders vote in favour of the proposed amendments. The Directors' view is supported by an Independent Expert who has concluded that having regard to the advantages, disadvantages and other considerations of the proposal, as well as the implications if the proposal is not approved, the proposal is in the best interests of RES holders.

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The Explanatory Statement released to the market today provides disclosure for RES holders regarding the proposal. Separately, IAG will hold a market briefing on Friday, 30 October 2009 at which the executive team will provide a strategy update on each division within the Group.

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Proposal to amend Reset Exchangeable Securities

SUMMARY OF KEY PROPOSED AMENDMENTS TO THE RES¹

Feature	Existing RES Terms	Amended RES Terms
Legal form	Unsecured notes for the purposes of section 283BH of the Corporations Act. Issuer's obligations are secured over the Portfolio for the benefit of RES holders	Unsecured notes for the purposes of section 283BH of the Corporations Act. Issuer's obligations are not secured by recourse to any assets and are subordinated to all policyholders and creditors
Volume	A\$550m	A\$550m
Credit Rating	"A-" by S&P	"A-" by S&P ²
ASX code	IANG	IANG
Regulatory capital	Do not qualify as regulatory capital	Qualify as Innovative Tier 1 Capital on a Level 2 basis ³
Term	Perpetual	Perpetual
Ranking	Unsubordinated and on a winding-up of the Issuer, existing RES will be redeemed automatically for the redemption amount	Subordinated and on a winding-up of the Issuer, amended RES will be exchanged automatically into amended Preference Shares
Interest Rate	Three-month Bank Bill Rate + RES Margin x (1 – Tax Rate)	Three-month Bank Bill Rate + RES Margin x (1 – Tax Rate)
Franking gross up	Yes	Yes
RES Margin	Currently 1.20% per annum	4.00% per annum
Source of Interest Payments	The portfolio, which is managed by IAG Asset Management Limited. RES holders currently have a security interest over the portfolio	The Issuer
Interest Payment Tests	Sufficient net portfolio income per current RES and the IAG profits test	The Directors not having passed a resolution not to pay and the absence of an APRA condition
Initial Reset Date	15 March 2010	16 December 2019
Conversion formula	$\frac{\text{Redemption Amount}}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$	$\frac{\text{Redemption Amount}}{\text{VWAP} \times (1 - \text{conversion discount of } 2.50\%)}$
Redemption Amount	\$100, subject to the distributable portfolio proceeds amount	\$100
Exchange	Into Preference Shares in respect of some or all existing RES, at IAG's discretion at any time, subject to certain restrictions	Into amended Preference Shares in respect of all amended RES: <ul style="list-style-type: none"> • mandatorily upon an Exchange Event; or • at IAG's discretion, at any time
Conversion, redemption, resale	Amended RES would continue to be capable of conversion, redemption or resale, but there would be some amendments to those circumstances in which, and extent to which, those rights or obligations apply.	

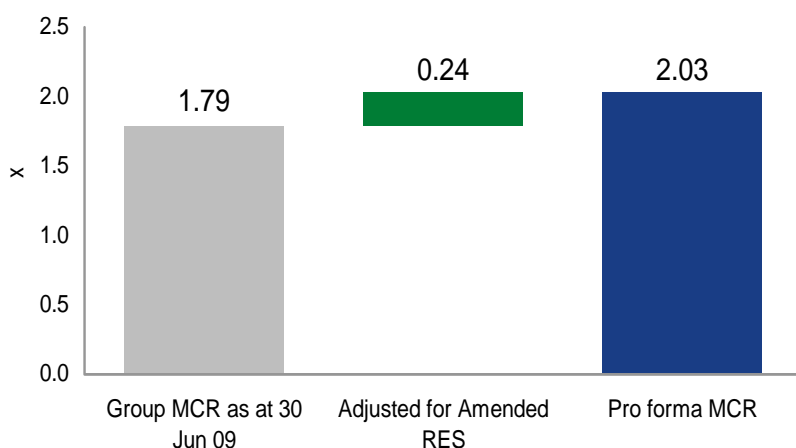
¹ This is a summary of the proposed terms only, and is not a complete list of the proposed amendments. Similar changes are proposed to the underlying preference shares. Full details of the proposed amendments to both the RES Terms and the Preference Share Terms will be provided to RES holders, who should carefully review the Explanatory Statement that accompanies the Notice of Meeting.

² S&P has indicated the amended RES will retain the current "A-" S&P credit rating.

³ Not all the Amended RES will count towards the Group's Innovative Tier 1 Capital on the Amendment Date due to current limits, however the surplus portion will count towards the Group's Upper Tier 2 Capital.

IMPACT ON IAG'S CAPITAL PROFILE IF PROPOSAL IS APPROVED

MINIMUM CAPITAL REQUIREMENT RATIO



CAPITAL MIX

	FY09 ('000)	FY09 pro forma ('000)
Shareholder equity	\$4,836	\$4,740
Intangibles and goodwill	\$(2,278)	\$(2,278)
Tangible shareholder equity	\$2,558	\$2,462
Interest bearing liabilities	\$1,053	\$1,603
Total tangible capitalisation	\$3,611	\$4,065
Debt to total tangible capitalisation	29%	39%

INDICATIVE KEY DATES FOR PROPOSAL*

Notice of Meeting and Explanatory Statement sent to RES Holders	4 November 2009
Record date (to determine RES Holders who are entitled to vote)	2 December 2009
Last date to lodge proxy vote	7 December 2009
RES Holder Meeting Date	9 December 2009
Amendment Date (if approved)	15 December 2009
First Reset Date under the Amended RES Terms (if approved)	16 December 2019

*These dates are subject to change