

# CHAIRMAN'S LETTER

23 October 2009

## DEAR RES HOLDER

On behalf of the Directors of IAG Finance (New Zealand) Limited (**Issuer**), I am pleased to invite you to consider and vote on a proposal to amend the terms of your Reset Exchangeable Securities (**RES**).

As the existing reset date for the RES of 15 March 2010 approaches, IAG and the Issuer have considered their respective options regarding the RES. Under the existing terms, IAG has a right to exchange the RES into Preference Shares at any time, at the existing margin of 1.20% over the Bank Bill Rate.

As an alternative, the Issuer is proposing a package of amendments to the existing terms of the RES and underlying Preference Shares in a way which balances the interests of RES holders, the Issuer and the Group.

Under the proposal, while many existing RES terms would be retained, key amendments would result in the following:

- The amended RES would offer holders an increased margin of 4.00% over the Bank Bill Rate, up from the current 1.20% margin;
- The amended RES would be brought onto the Group's balance sheet and qualify as regulatory capital rather than contingent capital. This strengthens the Group's capital position and supports its credit rating. IAG believes this is prudent given the ongoing uncertainty in financial markets; and
- The amended RES would cease to be secured by the existing investment portfolio. The funds currently invested in the portfolio would be made available to the Group to invest in accordance with its investment mandates. This would provide the Group with flexibility around future funding requirements.

The Issuer will not redeem or convert the RES on the existing reset date on 15 March 2010.

Rather, if the proposed Amendments are not approved, IAG will exercise its right to exchange the RES into Preference Shares by 15 March 2010. Under the existing Preference Share terms, holders would have a lower margin of 1.20% over the Bank Bill Rate, and no redemption or conversion right. In contrast, under the terms of the amended RES, holders would have a higher margin of 4.00% and the ability to request conversion at the new reset date in December 2019.

**The Directors consider that, on balance, it is in the best interests of RES holders to approve the proposed Amendments, as they would be better off holding the amended RES rather than holding the existing Preference Shares.**

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

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

You have the opportunity to vote on this proposal at a meeting of RES holders on 9 December 2009. The Directors encourage you to participate in the vote, and recommend you read the full details on the proposal and how to participate in this booklet and the accompanying Notice of Meeting.

For more information, please visit [www.iag.com.au](http://www.iag.com.au) or contact the RES Information Line on 1300 666 635, if calling from within Australia, +61 3 9415 4210 from outside Australia, Monday to Friday (8.30am–5.30pm). If you are unsure about what action you should take, I encourage you to consult an accountant, stockbroker, lawyer or other professional adviser.

**The Directors recommend that you vote in favour of the proposed Amendments.**

Yours faithfully



**James Strong**  
Chairman