News release
8 December 2016

IAG provides strategy update.

IAG provided an update on its strategy at an investor briefing in Sydney today. Managing Director and CEO Peter Harmer outlined the company's 3-to-5 year strategy to drive customer and business benefits through the two strategic themes of leading and fuelling.

"Leading has our customers at the core, and aims to provide inspiring customer experiences through our people, technology, innovative products and smart ideas," Mr Harmer said.

"Fuelling means making the necessary changes to the way we operate – simplifying processes and systems, and optimising resources to be more efficient so we can invest in leading."

Mr Harmer said IAG's strategy supports the delivery of its through-the-cycle targets of a cash return on equity (ROE) equivalent to 1.5 times IAG's weighted-average cost of capital, a top quartile total shareholder return, and compound earnings per share (EPS) growth of around 10%.

This strategy includes:

- measures to further enhance the customer experience through better understanding and segmentation to drive anticipated business growth in line with the market of around 3-5%, in its core markets of Australia and New Zealand;
- higher growth from IAG's focused strategy on chosen Asian markets;
- an optimisation program that will reduce gross operating costs by an annual run rate of at least 10%, or $250 million pre-tax, by the end of FY19; and
- benefits from ongoing innovation in capital management.

IAG's optimisation program, which will simplify its operating model, is central to the reduction of gross operating costs over the next three years and includes:

- partnering with global insurance and business process experts to simplify IAG's processes and reduce complexity;
- consolidation of core claims and policy administration systems to reduce them from 32 to two platforms; and
- a simpler procurement model.

IAG will continue to review the mix of its capital platform, with potentially greater use of reinsurance capital and lower reliance on equity.

As previously indicated, in the event of surplus capital accruing, and subject to size and market conditions, the company's preferred form of capital management is an off-market share buy-back, given its favourable effect on EPS and ROE, as well as the effective use of available franking credits.

IAG has reaffirmed its guidance for the financial year ending 30 June 2017. The company expects gross written premium growth will be relatively flat with a continuation of modest rate-driven growth in short tail personal lines in Australia and New Zealand, while there are further encouraging signs of improvement in the commercial market in Australia.

The company maintains its reported margin guidance of 12.5-14.5% with the following underlying assumptions:

- Net losses from natural perils in line with allowance of $680 million (FY16: $600 million)
- Prior period reserve releases of at least 1% of net earned premium
- No material movement in foreign exchange rates or investment markets

IAG also confirmed its expectation that the combination of the recent trans-Tasman storm and New Zealand earthquake events will result in a net claim cost of approximately $200 million.

About IAG
IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia, employing more than 15,000 people. The Group's businesses underwrite over $11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam); and Asuransi Parolamas (Indonesia). IAG also has interests in general insurance joint ventures in Malaysia and India. For further information please visit www.iag.com.au.

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IAG Investor Day

8 December 2016

Introduction & strategy overview

Peter Harmer
Managing Director and Chief Executive Officer

Program outline

09.00 am	Introduction & strategy overview	Peter Harmer, Managing Director & CEO
09.15 am	Customer	Julie Batch, Chief Customer Officer
09.30 am	Optimisation	Mark Milliner, Chief Operating Officer
09.50 am	Agility	Jacki Johnson, Group Executive People, Performance & Reputation
10.00 am	Capital	Nick Hawkins, Chief Financial Officer
10.20 am	Morning tea (webcast paused)	
10.40 am	Zone sessions Note: Zone sessions will not be webcast	1. Venturing Ron Arnold, General Partner, IAG Ventures 2. Product innovation James Orchard, EGM Innovation 3. Customer-led growth Dr Rami Mukhtar, CEO Ambiata 4. Operational partnering Suzanne Young, EGM Operational Partnering
11.30 am	Webcast restarts	
11.30 am	Closing remarks and Q&A	Main presenters
12.15 pm	Lunch	

Our value proposition

Delivering strong shareholder returns

Investment case

- Leading player with scale advantage in Australia and New Zealand (low single digit growth)
- Focused Asian growth opportunity – large player in our chosen markets (high single digit growth)
- Digitally-enabled insurer that is customer-led and data-driven
- Innovation in capital management
- Improved efficiencies

Value drivers

Fuelling drivers
(short to medium term)

Leading drivers
(longer term)

Shareholder value

Through-the-cycle targets

- Cash ROE 1.5x WACC
- High dividend (60-80% of cash earnings payout)
- Top quartile TSR
- ~10% compound EPS growth

Strategic context

Our purpose, opportunity and promise

Our purpose
We make your world a safer place

Our opportunity
Embrace innovation

Our promise
Inspiring customer experiences

Driving customer and business benefits

Two strategic themes

People agility

Leading

1. Digitally-enabled customer experiences
2. Partnering for success
3. Customer-influenced innovative offerings
4. Shared value investments
5. New ventures and incubation

Fuelling

1. Operational effectiveness
2. Supply chain utilisation and efficiency
3. Portfolio optimisation
4. Product and technology simplification
5. Innovative capital management

Organisational agility

Operating landscape

Predictive trends

Environment

- World awash with capital
- Continual regulatory change
- Climate change

Customer

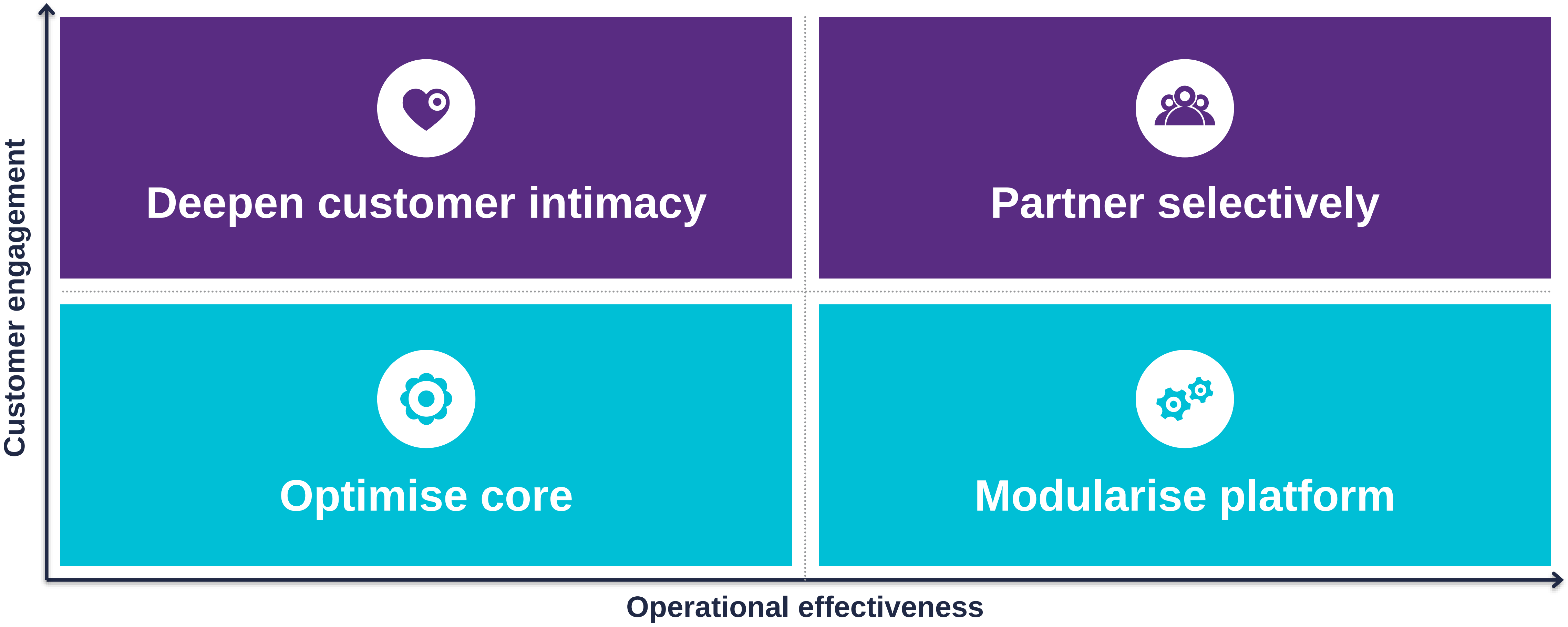
- Demographic shifts
- Shifting preferences / needs to get the best from service providers
- Increasing digital interaction

Technology

- Computing power, automation and connectivity unlocking value chain
- Automated vehicle technology
- Technology-driven risk revolution

Our strategic framework

Preparing IAG for multiple futures



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Optimise core

Fuelling by simplifying / optimising

Customer engagement

Deepen customer intimacy

Partner selectively

Optimise core

- Drive increased simplification and scalability
- Supply chain utilisation and efficiency
- Become an agile organisation
- Deliver inspiring customer experiences

Modularise platform

Operational effectiveness

Deepen relationships

Leading with customers

Deepen customer intimacy

- Digitally-enabled customer experiences
- Needs-based customer propositions
- Ecosystems of adjacent services
- Data-driven targeted marketing

Partner selectively

Optimise core

Modularise platform

Customer engagement

Operational effectiveness

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Modularise platform

Creating value closer to the customer

Customer engagement

Deepen customer intimacy

Partner selectively

Optimise core

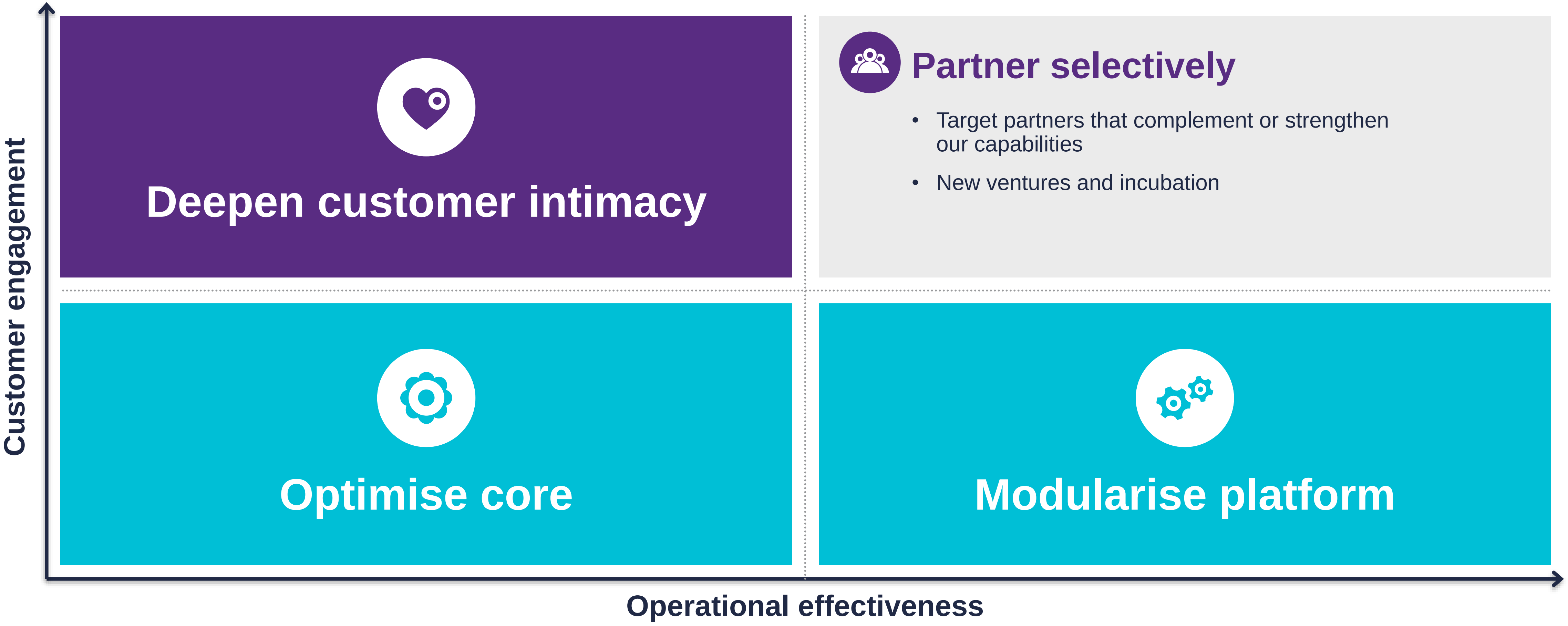
Modularise platform

- Derive maximum value from each component of the value chain
- Partner for capability in areas that are not a competitive advantage
- Offer steps in the value chain on a fee-for-service basis where they strengthen our competitive advantage

Operational effectiveness

Partner selectively

Accessing and strengthening capabilities



How we are organised

Strengthening our common capabilities

	Customers
Product design, marketing, innovation, experience design	Customer and Digital Labs
Sales and service	*Australia* • *New Zealand* • *Asia* Consumer | Business
Fulfilment	Operations, including Claims and Supply Chain
Enablement	People, Performance & Reputation, Legal, Finance, Technology

Customer

Julie Batch

Chief Customer Officer

Our customers' worlds are changing

And we are well positioned to respond

Super-computers are on tap	Everything has been digitised	Power is shifting	People are connected	The rules are changing
The cloud allows anyone to access super-computing power from anywhere	Everything that we could possibly know today is available digitally	Social and pervasive technologies are blurring boundaries and increasing transparency	Mobile phones mean we are constantly contactable and continuously transmitting and receiving data	Artificial intelligence and automation are changing how we work, play and interact with each other

Customer Labs was formed to respond to these changes, bringing together our unique capabilities to create deeply personalised and differentiated products and experiences for our customers

Creating new opportunities for IAG

Blending art, psychology, engineering and science to inspire our customers

Customer-led products and experiences
New products developed by listening and responding to our customers

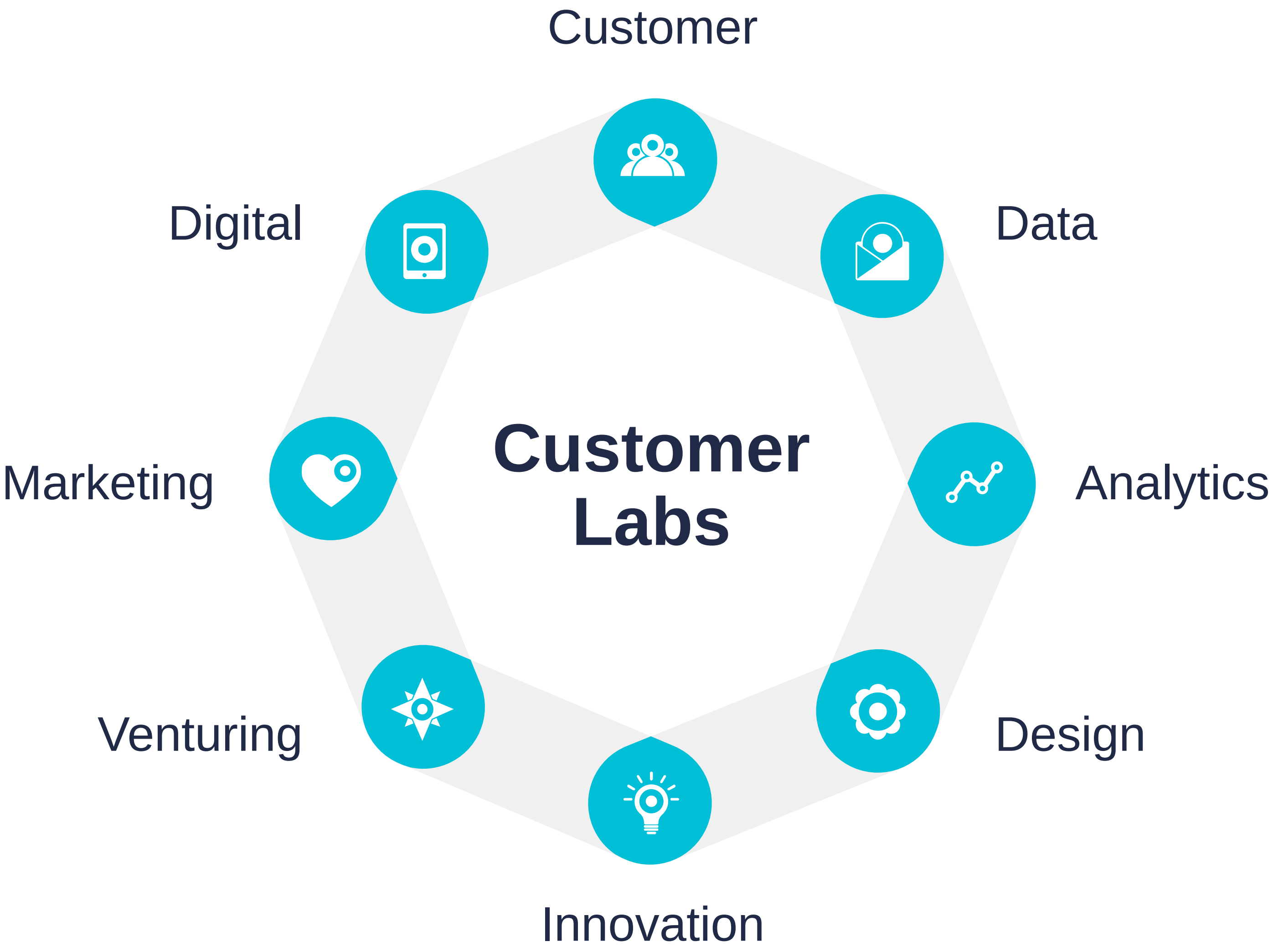
Powered by smart teams
New thinking derived from collaboration of diverse teams with customers and partners

Creating new methods
New approaches to analysis, design and execution to uncover new truths and deliver faster customer value

In an open world
A sound application of ethics will underpin our success in an increasingly open world

Customer Labs

Bringing capability together to shape customer-experience strategy and innovation



Placing customers at the centre

Understanding whole-of-customer needs and leveraging the power of data

Customers
Understanding people and what they value

- Individuals and families
- Organisations
- Communities

Assets
Understanding the things we use and enjoy

- Tangible assets
- Intangible assets
- Utilities

Our business
Understanding what drives value at IAG

- Brands
- Initiatives
- Our people
- Our shareholders

Our world
Understanding the world we live in, and the causes and consequences of risk within it

- Global
- Regional
- Local

Embracing innovation

Entrepreneurial mindset, drawing on research initiatives, universities, start-ups

Inputs

Disruptive technology

- Venturing
- Ideas labs
- Internal talent

Product innovation process

External

Researchers, students, entrepreneurs, start-ups

Product Funnel

Discover and experiment → **Launch** → **Scale**

Internal

Business units, JV partners, supply chain, customers

Outputs

New and enhanced products and processes

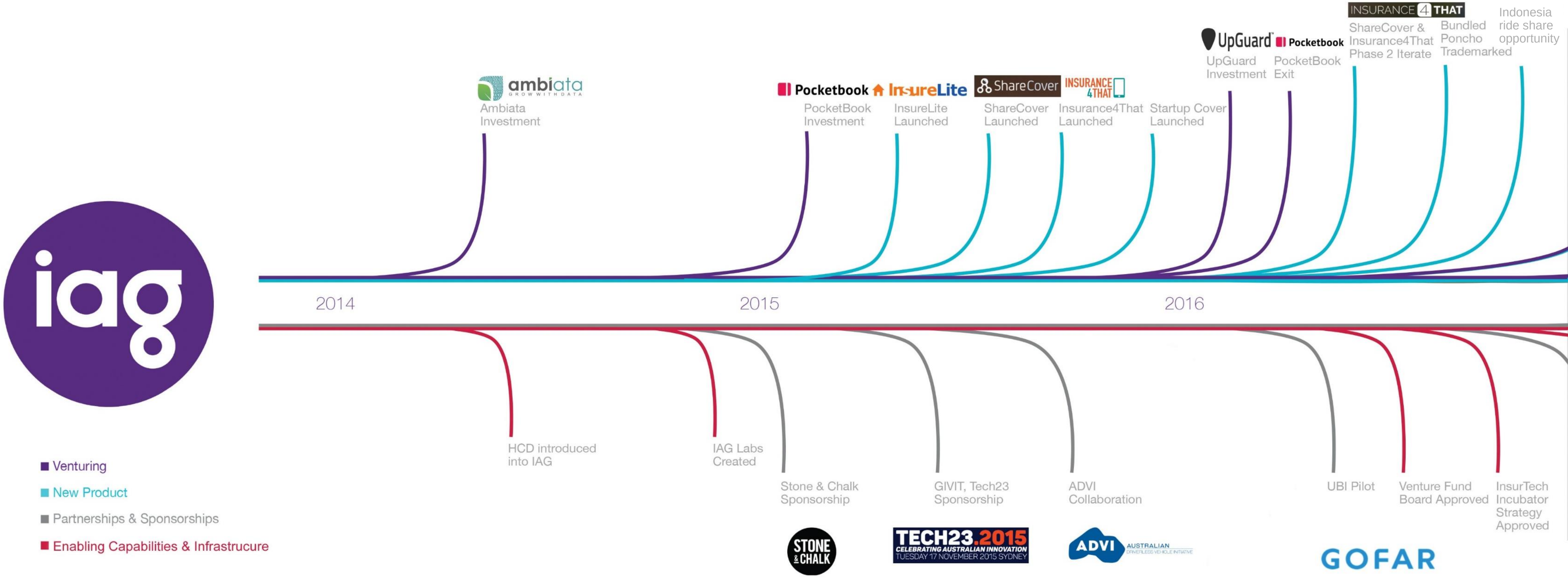
- New business units
- Start-up businesses

Overall outcomes

Impact on culture | Attract people | Build STEM capability, market intelligence, financial return

Delivering new value

Resulting in 25+ new partnerships, products and collaborations



Accelerating our development

New initiatives, including launch of $75m IAG Ventures fund

Customer understanding

e.g.
Internet of things, new data applications and cyber

Value chain disruptors

e.g.
Artificial intelligence, and robo-advice

New pathways to market

e.g.
Peer-to-peer and the sharing economy

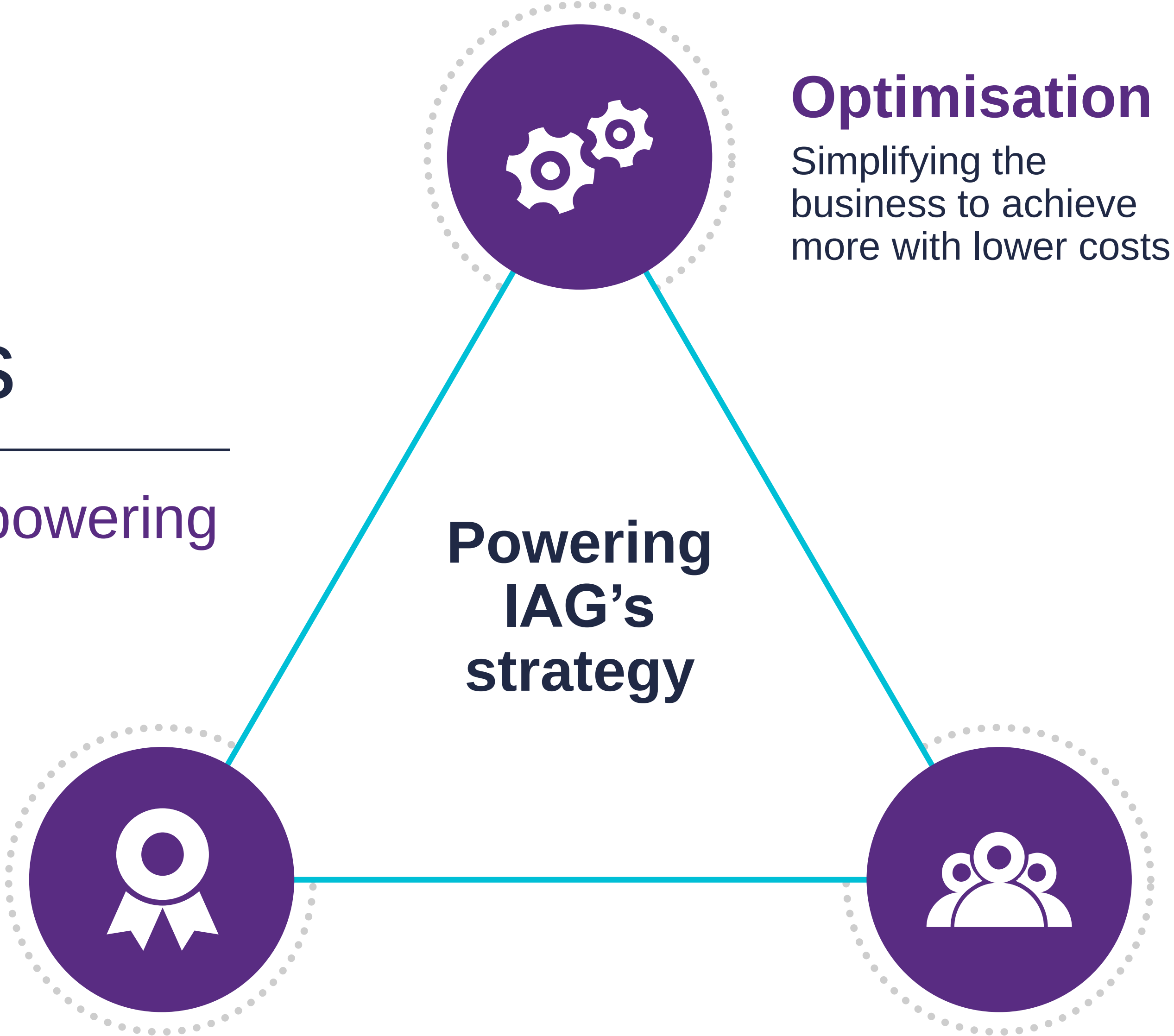
Optimisation

Mark Milliner

Chief Operating Officer

Operations

Enabling and empowering IAG’s strategy



Optimisation

Simplifying the business to achieve more with lower costs

Operational excellence

Leveraging scale in claims, supply chain and partnerships

Customer experience

Enabling faster response times and new digital experiences

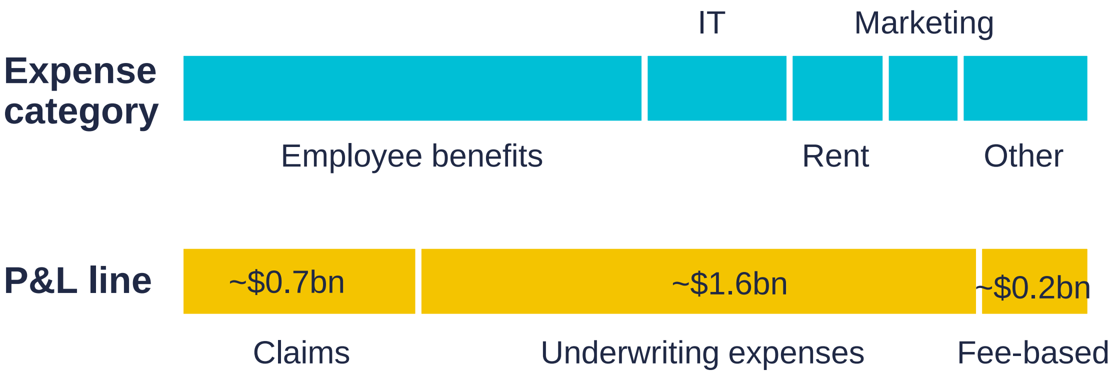
Optimisation program

At least 10% reduction in run rate exiting FY19

Three core pillars

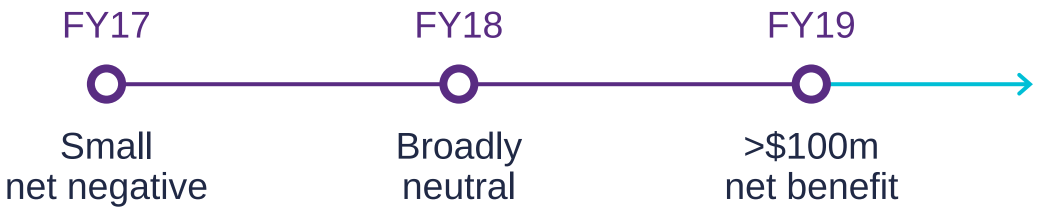
1. Effective partnering
2. Core systems consolidation
3. Procurement maximisation

~$2.5bn of gross operating costs
(excluding commission)



Progressive realisation of benefits

Expected net profile



- Exiting FY19 at $250m annual benefit run rate
- Intention to absorb related costs ‘above the line’, subject to lumpiness
- Further benefits beyond FY19

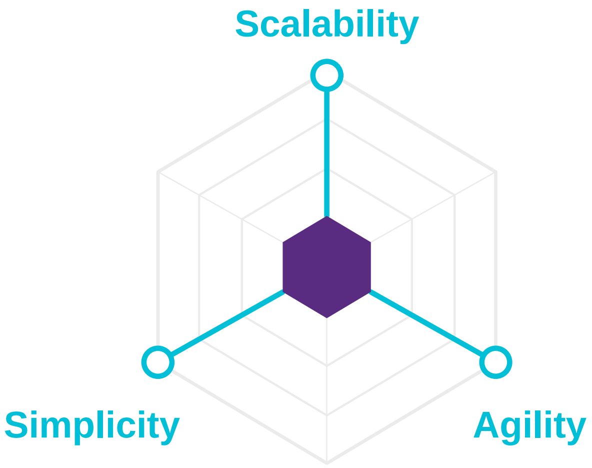
Effective partnering

Accessing process expertise and lowering costs

Global insurance and business process expertise…

…to help improve our customer and employee experience…

…and lower our operating costs



- Simplifying our processes and reducing complexity
- Customer centricity and operational excellence go hand-in-hand

FY17

- Partnering contracts negotiated and signed
- Waves 1 and 2 transition of activities underway

FY18

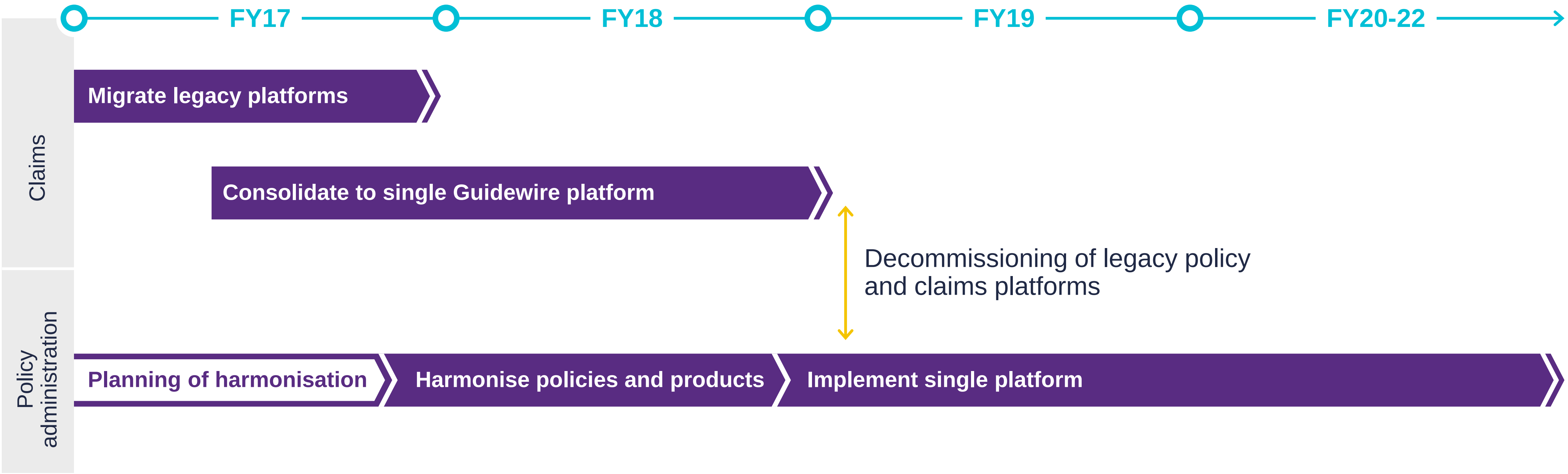
- Further waves of activity transition underway

FY19

- Operational Partnering Excellence framework embedded

Core systems consolidation

Initial emphasis on claims, then policy administration



- **Core systems consolidation** will deliver scale benefits and drive efficiencies – 32 systems reduced to two
- **Incremental 'claims first' approach** – realisation of early benefits while de-risking execution

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Procurement maximisation

Range of other initiatives contributing to lower costs

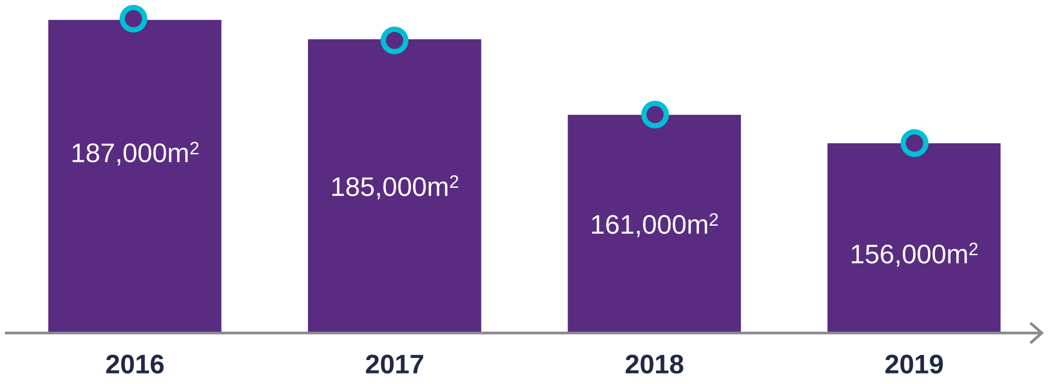
Deliver value-adding procurement model

- Build and deliver simple, scalable and agile procurement solutions
- Leverage group-wide spend to realise savings and increase benefits
- Leverage data, analytics and insights to drive effective decision-making and actions

Consolidate licences and simplify business

- Nine licences reduced to two – complete by August 2017
- Minimal customer impact
- Reduced administrative burden

Significant Australian floor space reduction by 2019

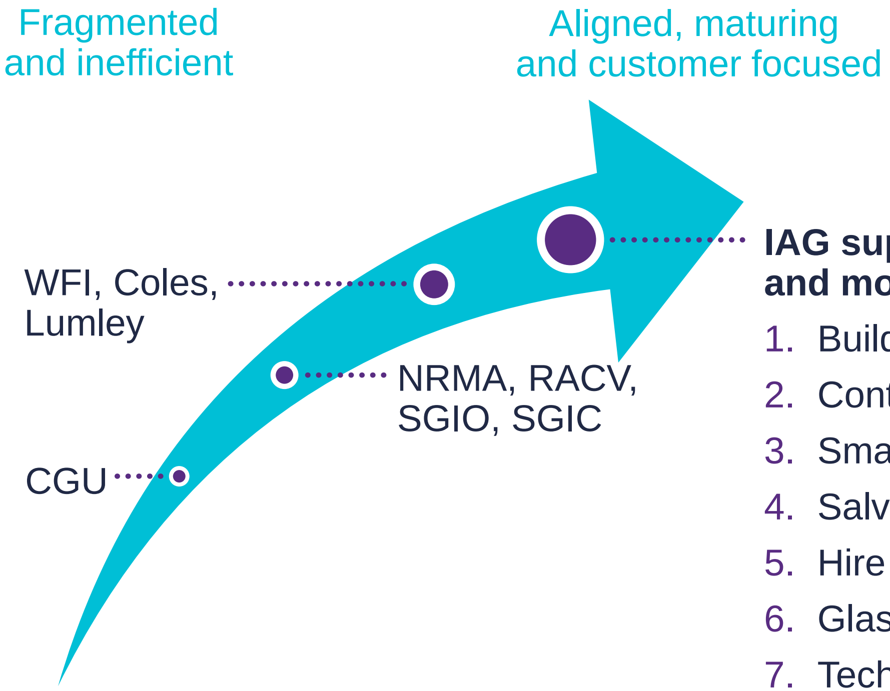


- Substantial and sustainable cost reductions through effective and efficient space design
- Move from static to activity-based workplaces
- Estimated 16% cost reduction by FY19
- Major consolidations in Melbourne and Sydney (as leases expire, including Wesfarmers legacy portfolio)

Claims indemnity cost reductions

Increased utilisation of simple and scalable supply chain

Progressive implementation of national claims supply chain – largely complete early FY17



IAG supply chain - property and motor Australia

1. Building repairs
2. Contents replacement
3. Smash repairs
4. Salvage
5. Hire car
6. Glass
7. Technical
8. Major event response

Supporting leading customer experiences

- National supply chain partnerships network
- One core supplier system interface
- Consolidated partners supporting all IAG brands – mutually beneficial long term relationships
- Innovative strategies to reduce waiting periods – repair cycle time has contracted by over two days
- Major event response for all brands – first insurer to deploy drones for assessments

Scope for significantly increased customer utilisation, based on current uptake:

Motor	Home
~60%	~40%

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Agility

Jacki Johnson

Group Executive People,
Performance & Reputation

To enable strategy

Shaping an agile organisation

Closer
Relational

Braver
Connected

Faster
Accountable

Transactional

Siloed

Avoidant

- Unsustainable cost structure
- Ripe for disruption as competitors with zero cost to scale continue to enter

- Complexity
- Duplication
- Lack of innovation
- Low levels of accountability

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To enable strategy

Shaping an agile organisation

An integrated and whole systems approach to accelerating IAG's cultural evolution, rather than stand alone programs dedicated to culture change	Real time, data rich insights into the health of our organisational culture	Highly visible performance and reward frameworks that reinforce our cultural aspirations	Greater rigour and accountably for driving cultural transformation	Further focus on embedding IAG's purpose

Organisational design **Culture measurement** **Workforce strategy**

IAG strategic workforce plan

Internal factors (demand drivers)

- Customer experiences
- Agility
- **Simplicity and scale**

External factors

- Socio-economic
- Political
- Legal
- **Technological**

Capability profile dimensions

Skills	Size	Shape	Spend	Site
The right strategic and core enabling skills	The right number of people for the jobs required	The right structure - insource, outsource, diversity	The right cost for the work and output produced	The right people in the right locations

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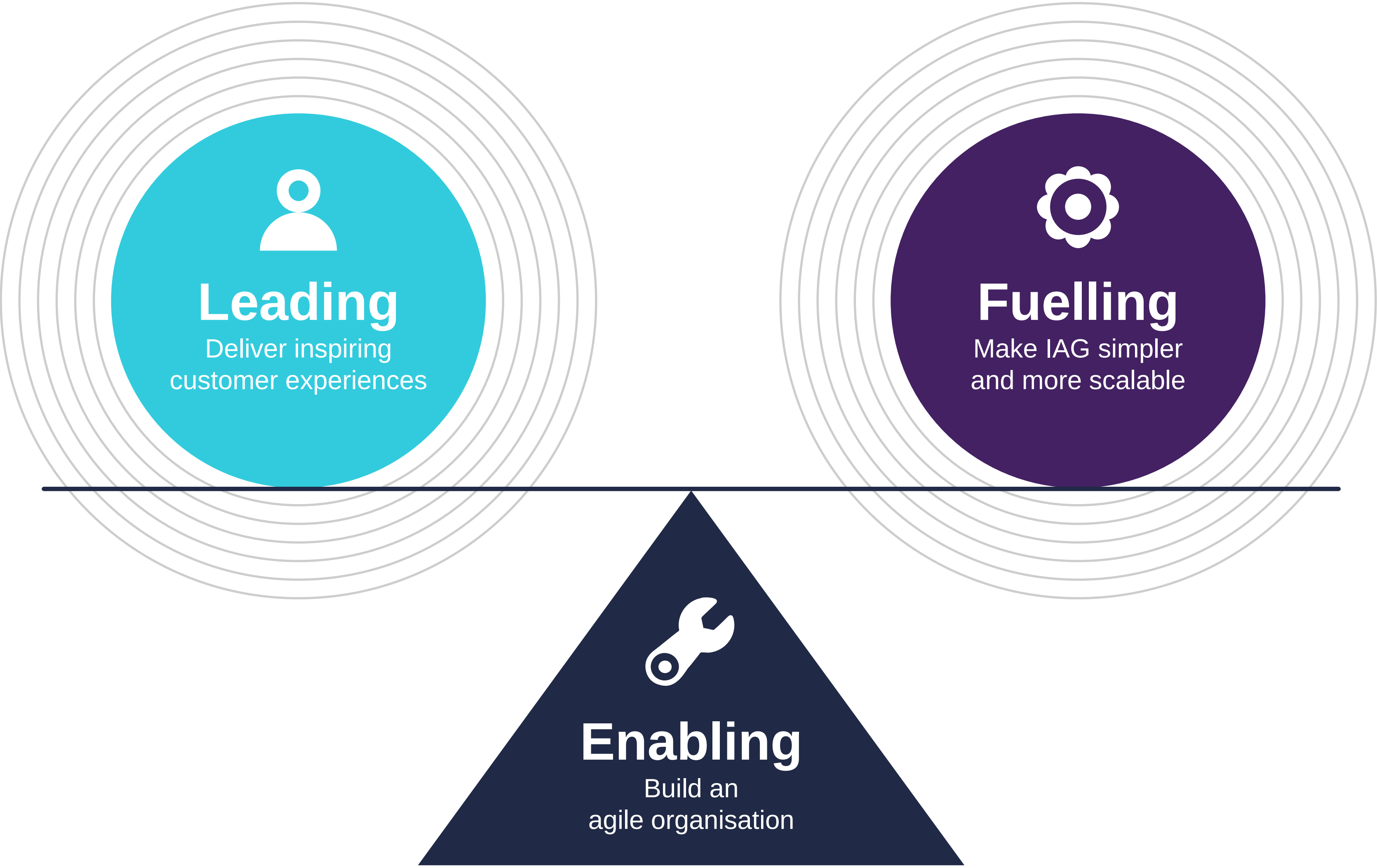
Balancing leading and fuelling



Capital

Nick Hawkins

Chief Financial Officer

Optimising our capital mix

Capital sustainability

Capital platform

- **Equity**
- **Debt / hybrid**
- **Reinsurance**

Two key decisions

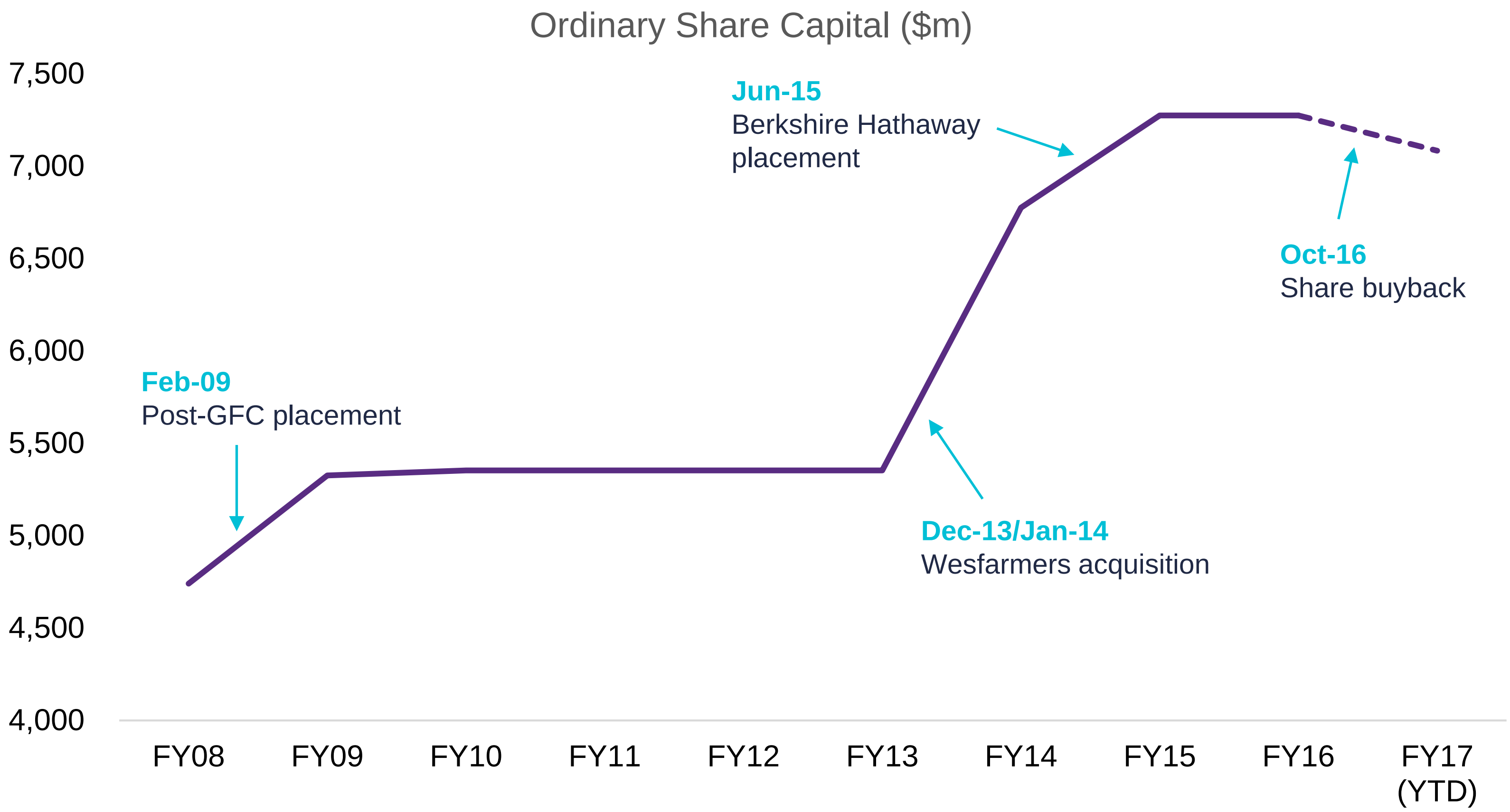
- Quantum of capital
- Form of capital (mix)

Capital mix trends

- Increased diversification
- Reduced emphasis on equity
- Greater use of reinsurance capital

Equity

Past growth driven by M&A funding needs



Growth driven by funding of acquisitions (e.g. Wesfarmers)

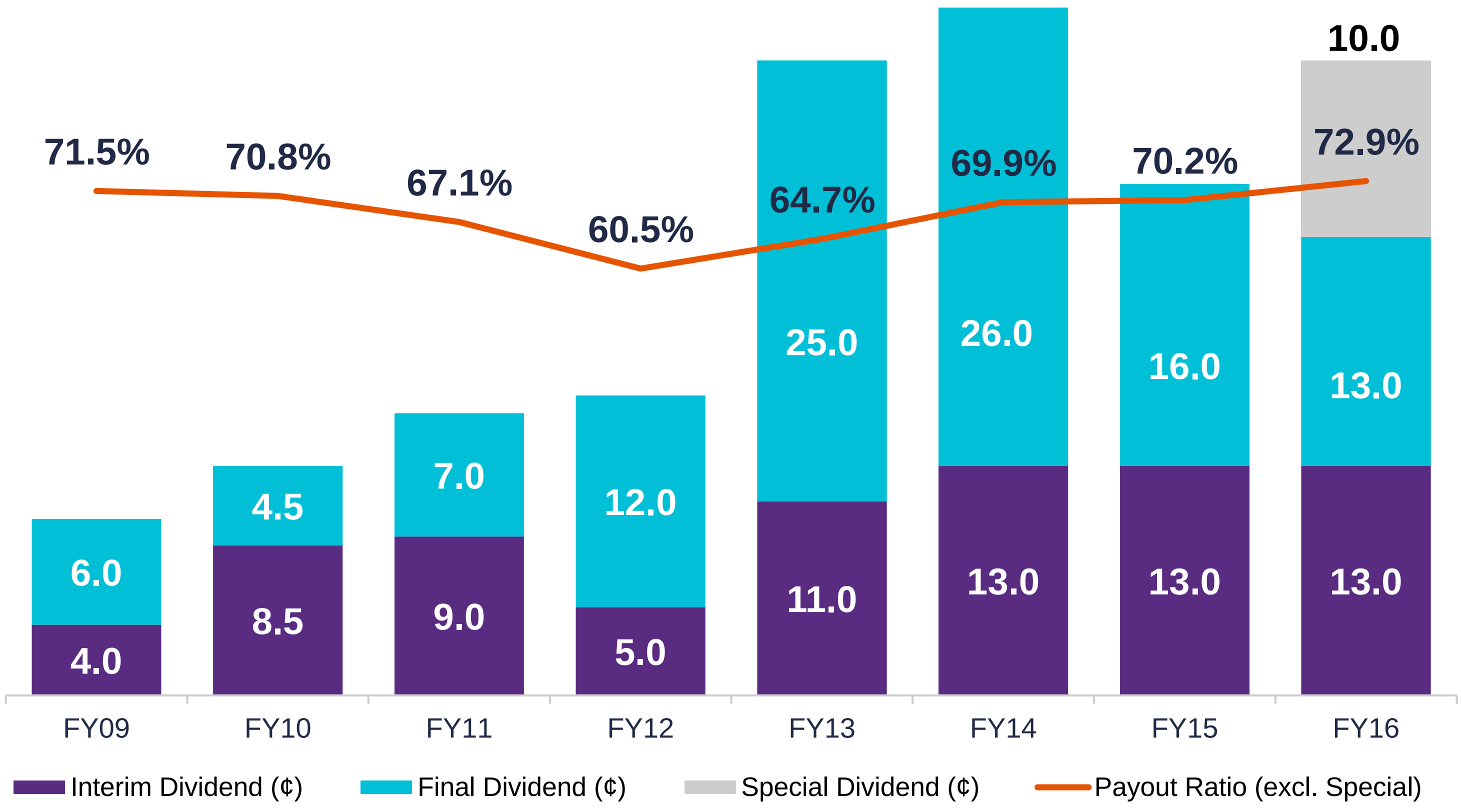
Reduced M&A appetite going forward – large market shares in Australia and New Zealand

Where excess capital available, preferred capital management form = off-market buy-back

- Franking credit utilisation – buy-back at significant discount
- Positive EPS/ROE effect

Dividend policy

Increased payout ratio



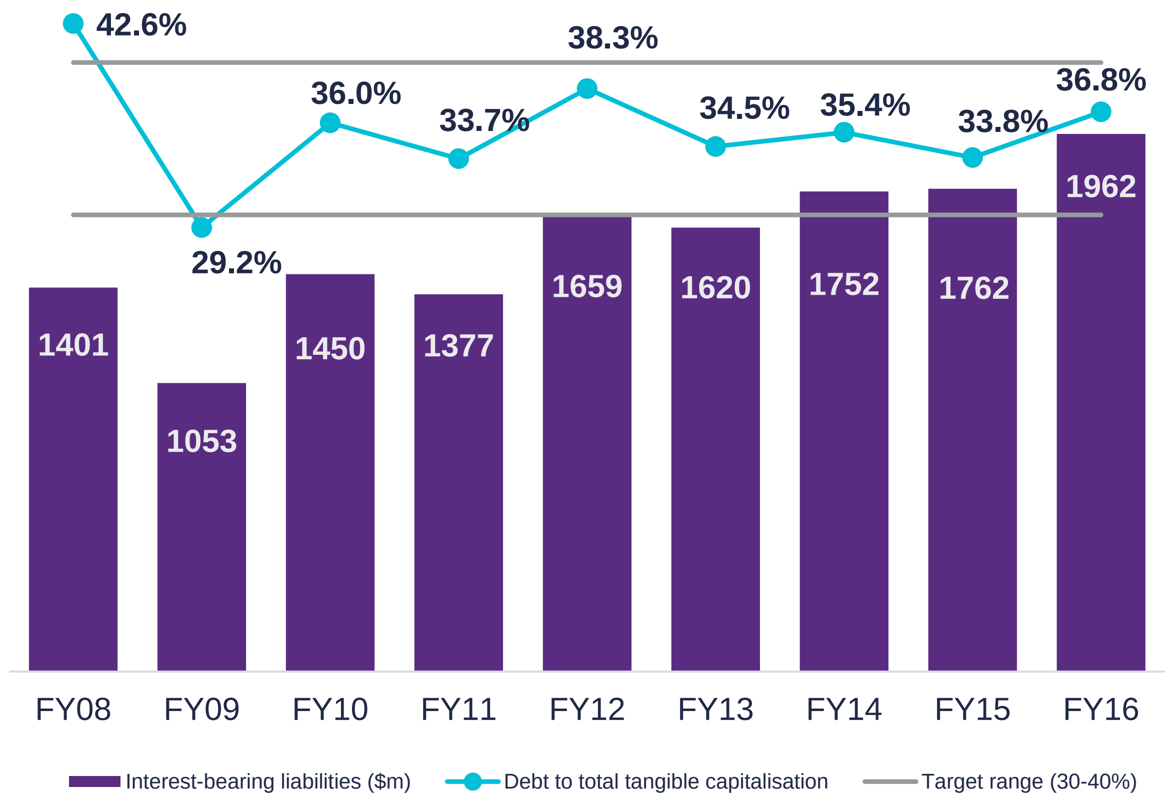
Payout policy increased to 60-80% of cash earnings in FY16

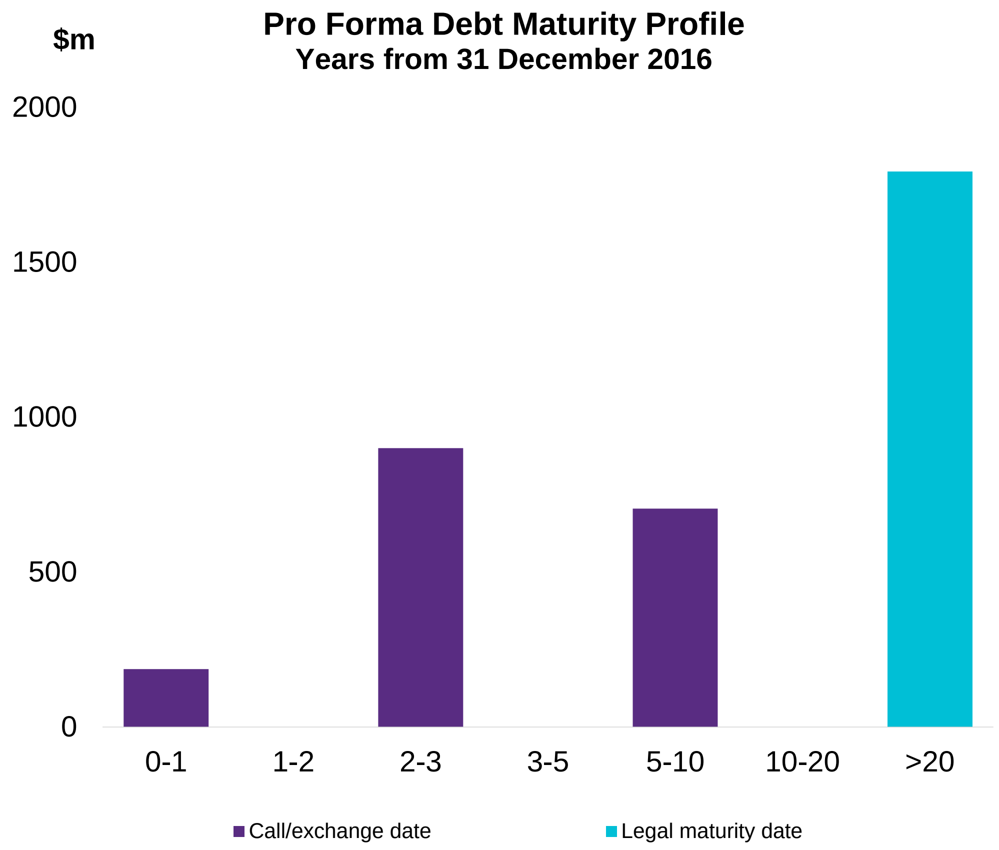
Strong pro forma 30 June 2016 franking position

- Able to frank ~$370m of further dividends
- After FY16 dividend and buy-back
- Before tax payments made after 30 June

Debt and hybrid capital

Actively managed instrument mix





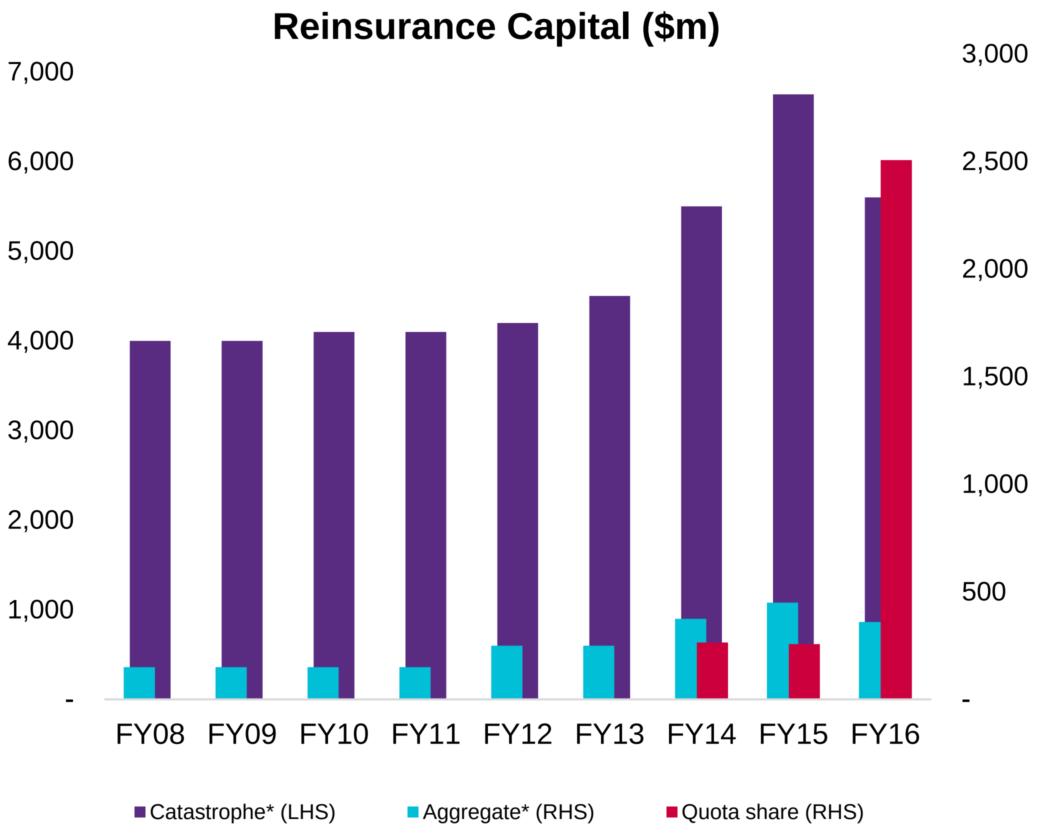
* Assumes 50% take-up of CPS reinvestment offer, as part of Capital Notes issue.

Reinsurance capital

Diversification away from traditional forms

Reinsurance capital

Catastrophe protection	Operating capital	Volatility cover
• **$7bn** of gross catastrophe cover (80% placed) • **$200m MER** post quota share	Quota shares: • **20% whole-of-account** (Berkshire Hathaway) • **30% CTP** (Munich Re)	• **Aggregate cover** • **Perils stop-loss** FY basis • **Run-off portfolio ADCs** (asbestos, earthquake)



* Calendar year basis

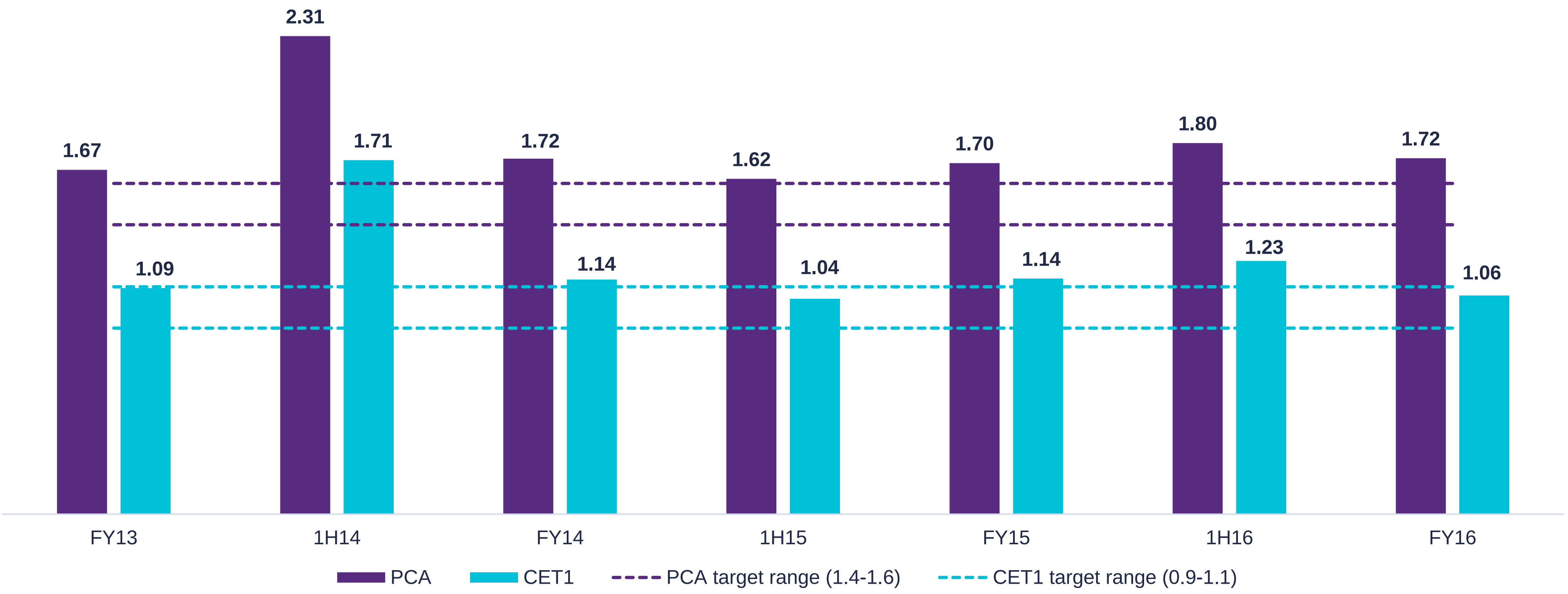
Reinsurance capital

Lowering earnings volatility and regulatory capital requirement

	Rationale / appeal	Future considerations
Catastrophe cover	• Intrinsic part of capital management approach • Scale driven by peak exposures • Many long-standing counterparty relationships	• Increased multi-year component
Operating capital (quota shares)	• Enhanced capital efficiency • Reduced earnings volatility • Lengthy and straightforward transactions with established counterparties • No impact on management of operating platform	• Minimisation of refinancing risk – differing maturity profiles • Counterparty concentration
Volatility cover	• Tactical covers • Reduced earnings volatility	• Increased aggregate protection, FY-based perils cover • Take-up influenced by prevailing market conditions

Regulatory capital

Strong position, above or within benchmark range multiples



Trading update, summary and Q&A

Peter Harmer

Managing Director and Chief Executive Officer

FY17 trading update

GWP growth and reported insurance margin guidance reaffirmed

FY17 guidance

GWP growth	Relatively flat
Reported insurance margin	12.5 - 14.5%

Underlying assumptions

1. Net losses from natural perils of $680m
2. Reserve releases of at least 1%
3. No material movement in foreign exchange rates or investment markets

- Sound rate-driven growth in short tail personal lines, countering modest claims inflation
- Further encouraging signs of bottoming of commercial market, notably in Australia
- CTP performance stabilising, as rate increases offset higher frequency
- Delay in anticipated NSW CTP reform – no earlier than calendar 2018
- Likely combined net earthquake and storm costs of ~$200m from major events in November
- Small net negative in FY17 from operational partnering and systems simplification initiatives

Conclusion

Our story
3-5 years

Customer
Improved understanding and segmentation

Growth
- **Australia-New Zealand** – system growth, ~3-5%
- **Asia** – higher growth, dial-up potential

Efficiency
Gross cost run rate reduction of at least 10% by end FY19

Capital management
Optimised mix – reduced reliance on equity

Delivers
Strong shareholder returns

Important information

This presentation contains general information in summary form which is current as at 8 December 2016. It presents financial information on both a statutory basis (prepared in accordance with Australian Accounting Standards which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis.

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