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.
Introduction & strategy overview

Peter Harmer
Managing Director and Chief Executive Officer
<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Presenter</th>
</tr>
</thead>
<tbody>
<tr>
<td>09.00 am</td>
<td>Introduction &amp; strategy overview</td>
<td>Peter Harmer, Managing Director &amp; CEO</td>
</tr>
<tr>
<td>09.15 am</td>
<td>Customer</td>
<td>Julie Batch, Chief Customer Officer</td>
</tr>
<tr>
<td>09.30 am</td>
<td>Optimisation</td>
<td>Mark Milliner, Chief Operating Officer</td>
</tr>
<tr>
<td>09.50 am</td>
<td>Agility</td>
<td>Jacki Johnson, Group Executive People, Performance &amp; Reputation</td>
</tr>
<tr>
<td>10.00 am</td>
<td>Capital</td>
<td>Nick Hawkins, Chief Financial Officer</td>
</tr>
<tr>
<td>10.20 am</td>
<td>Morning tea (webcast paused)</td>
<td></td>
</tr>
</tbody>
</table>
| 10.40 am | Zone sessions                  | 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

**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

For personal use only
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

- Deepen customer intimacy
- Partner selectively
- Optimise core
- Modularise platform
Optimise core

Fuelling by simplifying / optimising

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
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
Modularise platform

Creating value closer to the customer

- 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

Deepen customer intimacy

Partner selectively

Optimise core
Partner selectively

Accessing and strengthening capabilities

- Target partners that complement or strengthen our capabilities
- New ventures and incubation

Deepen customer intimacy

Optimise core

Modularise platform

For personal use only
How we are organised

Strengthening our common capabilities

Product design, marketing, innovation, experience design

Sales and service

Fulfilment

Enablement

Customers

Customer and Digital Labs

Australia • New Zealand • Asia
Consumer | Business

Operations, including Claims and Supply Chain

People, Performance & Reputation, Legal, Finance, Technology
Our customers’ worlds are changing
And we are well positioned to respond

Super-computers are on tap

The cloud allows anyone to access super-computing power from anywhere

Everything has been digitised

Everything that we could possibly know today is available digitally

Power is shifting

Social and pervasive technologies are blurring boundaries and increasing transparency

People are connected

Mobile phones mean we are constantly contactable and continuously transmitting and receiving data

The rules are changing

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

IAG’s customer-centric information universe

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

For personal use only
Embracing innovation
Entreprenurial mindset, drawing on research initiatives, universities, start-ups

**Inputs**
- Disruptive technology
- Venturing
- Ideas labs
- Internal talent

**Outputs**
- New and enhanced products and processes
  - New business units
  - Start-up businesses

**Product innovation process**
- **Discover and experiment**
  - Researchers, students, entrepreneurs, start-ups
- **Launch**
  - Business units, JV partners, supply chain, customers
- **Scale**

**Overall outcomes**
- Impact on culture
- Attract people
- Build STEM capability, market intelligence, financial return

For personal use only
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
Operations

Enabling and empowering IAG’s strategy

Optimisation

Simplifying the business to achieve more with lower costs

Powering IAG’s strategy

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

<table>
<thead>
<tr>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small net negative</td>
<td>Broadly neutral</td>
<td>&gt;$100m net benefit</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Partnering contracts negotiated and signed</td>
<td>• Further waves of activity transition underway</td>
<td>• Operational Partnering Excellence framework embedded</td>
</tr>
<tr>
<td>• Waves 1 and 2 transition of activities underway</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

FY17

Migrate legacy platforms

Consolidate to single Guidewire platform

Decommissioning of legacy policy and claims platforms

FY18

FY19

FY20-22

Planning of harmonisation

Harmonise policies and products

Implement single platform
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Floor Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>187,000m²</td>
</tr>
<tr>
<td>2017</td>
<td>185,000m²</td>
</tr>
<tr>
<td>2018</td>
<td>161,000m²</td>
</tr>
<tr>
<td>2019</td>
<td>156,000m²</td>
</tr>
</tbody>
</table>

- 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 ~60%
Home ~40%
Agility

Jacki Johnson
Group Executive People, Performance & Reputation
Shaping an agile organisation

To enable strategy

- 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

Relational Connected Accountable

Transactional Siloed Avoidant

For personal use only
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
## IAG strategic workforce plan

### Internal factors (demand drivers)

- Customer experiences
- Agility
- Simplicity and scale

### External factors

- Socio-economic
- Political
- Legal
- Technological

### Capability profile dimensions

<table>
<thead>
<tr>
<th>Skills</th>
<th>Size</th>
<th>Shape</th>
<th>Spend</th>
<th>Site</th>
</tr>
</thead>
<tbody>
<tr>
<td>The right strategic and core enabling skills</td>
<td>The right number of people for the jobs required</td>
<td>The right structure - insource, outsource, diversity</td>
<td>The right cost for the work and output produced</td>
<td>The right people in the right locations</td>
</tr>
</tbody>
</table>
Balancing leading and fuelling

Leading
Deliver inspiring customer experiences

Fuelling
Make IAG simpler and more scalable

Enabling
Build an agile organisation
**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
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

**Pro Forma Debt Maturity Profile**

Years from 31 December 2016

- **Call/exchange date**
- **Legal maturity date**

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

## Diversification away from traditional forms

### Catastrophe protection
- $7bn of gross catastrophe cover (80% placed)
- $200m MER post quota share

### Operating capital
Quota shares:
- 20% whole-of-account (Berkshire Hathaway)
- 30% CTP (Munich Re)

### Volatility cover
- Aggregate cover
- Perils stop-loss FY basis
- Run-off portfolio ADCs (asbestos, earthquake)

### Reinsurance Capital ($m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Catastrophe* (LHS)</th>
<th>Aggregate* (RHS)</th>
<th>Quota share (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY09</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Calendar year basis
# Reinsurance capital

## Lowering earnings volatility and regulatory capital requirement

### Rationale / appeal

<table>
<thead>
<tr>
<th>Catastrophe cover</th>
<th>Operating capital (quota shares)</th>
<th>Volatility cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Intrinsic part of capital management approach</td>
<td>• Enhanced capital efficiency</td>
<td>• Tactical covers</td>
</tr>
<tr>
<td>• Scale driven by peak exposures</td>
<td>• Reduced earnings volatility</td>
<td>• Reduced earnings volatility</td>
</tr>
<tr>
<td>• Many long-standing counterparty relationships</td>
<td>• Lengthy and straightforward transactions with established counterparties</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• No impact on management of operating platform</td>
<td>• Increased aggregate protection, FY-based perils cover</td>
</tr>
</tbody>
</table>

### Future considerations

<table>
<thead>
<tr>
<th>Future considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increased multi-year component</td>
</tr>
<tr>
<td>• Minimisation of refinancing risk – differing maturity profiles</td>
</tr>
<tr>
<td>• Counterparty concentration</td>
</tr>
<tr>
<td>• Increased aggregate protection, FY-based perils cover</td>
</tr>
<tr>
<td>• Take-up influenced by prevailing market conditions</td>
</tr>
</tbody>
</table>
Regulatory capital

Strong position, above or within benchmark range multiples

PCA | CET1 | PCA target range (1.4-1.6) | CET1 target range (0.9-1.1)

FY13 | 1.67 | 1.09 | 1.09 | 1.09
1H14 | 2.31 | 1.71 | 1.71 | 1.71
FY14 | 1.72 | 1.14 | 1.14 | 1.14
1H15 | 1.62 | 1.04 | 1.04 | 1.04
FY15 | 1.70 | 1.14 | 1.14 | 1.14
1H16 | 1.80 | 1.23 | 1.23 | 1.23
FY16 | 1.72 | 1.06 | 1.06 | 1.06
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

- 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

<table>
<thead>
<tr>
<th>Underlying assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net losses from natural perils of $680m</td>
</tr>
<tr>
<td>2. Reserve releases of at least 1%</td>
</tr>
<tr>
<td>3. No material movement in foreign exchange rates or investment markets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY17 guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>GWP growth</td>
</tr>
<tr>
<td>Reported insurance margin</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Underlying assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net losses from natural perils of $680m</td>
</tr>
<tr>
<td>2. Reserve releases of at least 1%</td>
</tr>
<tr>
<td>3. No material movement in foreign exchange rates or investment markets</td>
</tr>
</tbody>
</table>

- 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

For personal use only
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.

This presentation is not a recommendation or advice in relation to Insurance Australia Group Limited (IAG) or any product or service offered by IAG’s subsidiaries and does not take into account the financial situation, investment objectives or particular needs of any person. It is not intended to be relied upon as advice to investors or potential investors, and does not contain all information relevant or necessary for an investment decision. No recommendation is made as to how investors should make an investment decision. Investors must rely on their own examination of IAG, including the merits and risks involved, and should consult with their own professional advisers in connection with any acquisition of securities. This presentation should be read in conjunction with IAG’s other periodic and continuous disclosure announcements filed with the Australian Securities Exchange which are also available at www.iag.com.au.

No representation or warranty, express or implied, is made as to the currency, accuracy, adequacy, completeness or reliability of any statements, estimates or opinions, or the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects or returns contained in, or implied by, this presentation. To the maximum extent permitted by law, IAG, its subsidiaries and their respective directors, officers, employees, agents and advisers disclaim all liability and responsibility for any direct or indirect loss, costs or damage which may be suffered by any recipient through use of or reliance on anything contained in, implied by or omitted from this presentation.

To the extent that certain statements contained in this presentation may constitute “forward-looking statements” or statements about “future matters”, the information reflects IAG’s intent, belief or expectations at the date of this presentation. Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties, assumptions, contingencies and other factors (many of which are beyond the control of IAG and its directors, officers, employees, agents and advisers) that may cause IAG’s actual results, performance or achievements to differ materially from any future results, performance or achievements predicted, expressed or implied by these forward-looking statements. Subject to any legal or regulatory obligations, IAG disclaims any obligation or undertaking to release any updates or revisions to the information in this presentation to reflect any change in expectations or assumptions.

Any forward-looking statements, opinions and estimates in this presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Neither IAG, nor any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this presentation will actually occur and IAG assumes no obligation to update such information. In addition, past performance is no guarantee or indication of future performance.

This presentation is not, and does not constitute, an invitation, solicitation, recommendation or offer to buy, issue or sell securities or other financial products in any jurisdiction. This presentation may not be reproduced or published, in whole or in part, for any purpose without the prior written permission of IAG.