The numbers

Annual Report 2020
Insurance Australia Group Limited
ABN 60 090 739 923

Contents

About this report

The 2020 annual report of Insurance Australia Group Limited (IAG, or the Group) includes IAG's full statutory accounts, along with the Directors' and remuneration reports for the financial year ended 30 June 2020. This year's corporate governance report is available in the About Us area of our website (www.iag.com.au).

The financial statements are structured to provide prominence to the disclosures that are considered most relevant to the user's understanding of the operations, results and financial position of the Group.

IAG is a "dual listed issuer" that is listed on both the ASX and the NZX Debt Market. As such, IAG is subject to some, but not all of the NZX Main Board/Debt Market Listing Rules ("NZX Listing Rules"). In particular, the rules set out in Appendix 17 to the NZX Listing Rules do not apply to IAG.

All figures are in Australian dollars unless otherwise stated.

2020 annual review and safer communities report

This report should be read with the 2020 annual review and safer communities report, which provides a summary of IAG's operating performance, including the Chairman's, CEO's and Deputy CEO's reviews.

Our annual review and safer communities report is also available from the home page of our website at www.iag.com.au. Detailed information about our safer communities approach and non- financial performance is available in the Safer Communities area of our website.

If you would like to have a copy of the annual report or annual review mailed to you, contact IAG's Share Registry using the contact details on page 111.

2020 annual general meeting

The 2020 annual general meeting (AGM) of Insurance Australia Group Limited will commence at 10.00am on Friday, 23 October 2020. In light of the COVID-19 pandemic, our AGM this year will be held virtually for all shareholders through the online AGM platform at https://web.lumiagm.com. The Board of Directors will attend in person to the extent they are able to do so in a safe and permissible manner. The AGM will be webcast live on the internet at www.iag.com.au/shareholder-centre/annual-meetings and an archived version will be placed on the website after the event to enable the AGM to be viewed at a later time. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be available online at www.iag.com.au, from Thursday, 10 September 2020.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2020 and the Auditor's Report.

The following terminology is used throughout the financial report:

- Company or Parent – Insurance Australia Group Limited; and
- IAG or Group – the consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

The names and details of the Company's Directors in office at any time during or since the end of the financial year are set out below. Directors were in office for the entire period unless otherwise stated.

CHAIRMAN

ELIZABETH B BRYAN AM

BA (Econ), MA (Econ) – Chairman and Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Elizabeth Bryan was appointed a Director of IAG on 5 December 2014, and became Chairman on 31 March 2016. She is the Chairman of the Nomination Committee, and attends all other Board committee meetings in an ex-officio capacity. Elizabeth is also the Chairman of Insurance Manufacturers of Australia Pty Limited.

OTHER BUSINESS AND MARKET EXPERIENCE

Elizabeth brings extensive leadership, strategic and financial expertise from a diverse range of industries to her role as Chairman.

She has over 30 years of experience in the financial services industry, government policy and administration, and on the boards of companies and statutory organisations.

Previous roles include Chairmanship of Caltex Australia Limited and UniSuper Limited.

Directorships of other listed companies held in the past three years:

- Virgin Australia Group, since 2015. While Elizabeth remains technically a member of the Board of Virgin Australia Group and its Chairman, the powers and responsibilities of the Board were vested in the Administrator from 20 April 2020; and
- IAG Finance (New Zealand) Limited (a part of the Group), since 2016. This company was delisted from the ASX on 17 December 2019.

MANAGING DIRECTOR

PETER G HARMER

Managing Director and Chief Executive Officer, Executive Director

INSURANCE INDUSTRY EXPERIENCE

Peter Harmer was appointed Managing Director and Chief Executive Officer of IAG on 16 November 2015. He is a member of the Nomination Committee.

Peter joined IAG in 2010 as Chief Executive Officer, CGU Insurance and has held a number of senior roles. Prior to his current role, he was Chief Executive of the IAG Labs division, responsible for driving digital and innovation across IAG and its brands, and creating incubator areas to explore innovative opportunities across the fintech landscape.

Before this, Peter was Chief Executive of IAG's Australian Commercial Insurance division.

Peter was previously Chief Executive Officer of Aon Limited UK and a member of Aon's Global Executive Board, and spent seven years as Chief Executive Officer of Aon's Australian, New Zealand and Pacific operations.

He has over 40 years of experience in the insurance industry, including senior roles in underwriting, reinsurance broking and commercial insurance broking as Managing Director of John C. Lloyd Reinsurance Brokers, Chairman and Chief Executive of Aon Re and Chairman of the London Market Reform Group.

Peter has completed the Harvard Advanced Management Program.

On 8 April 2020, Peter advised the Board of his decision to retire from IAG by the end of calendar year 2020.

Directorships of other listed companies held in the past three years:

- IAG Finance (New Zealand) Limited (a part of the Group), since 2015. This company was delisted from the ASX on 17 December 2019.

OTHER DIRECTORS

SIMON C ALLEN

BCom, BSc, CFInstD – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Simon Allen was appointed a Director of IAG on 12 November 2019 and is a member of the People and Remuneration Committee, Risk Committee and Nomination Committee.

Simon has been a Non-Executive Director of IAG's wholly-owned subsidiary, IAG New Zealand Limited since September 2015 and was appointed its Chairman in November 2019.

OTHER BUSINESS AND MARKET EXPERIENCE

Simon has over 30 years of commercial experience in the New Zealand and Australian capital markets and was Chief Executive of investment bank BZW/ABN AMRO in New Zealand for 21 years. He is currently Chair of The New Zealand Refining Company Limited and a Trustee of the New Zealand Antarctic Heritage Trust.

He was the inaugural Chair of NZX Limited and of the Financial Markets Authority and Crown Fibre Holdings Limited (renamed Crown Infrastructure Partners Limited).

Directorships of other listed companies held in the past three years:

- The New Zealand Refining Company Limited, since 2015.

DUNCAN M BOYLE

BA (Hons), FCII, FAICD – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Duncan Boyle was appointed a Director of IAG on 23 December 2016. He is Chairman of the Risk Committee and a member of the Audit Committee, People and Remuneration Committee and Nomination Committee.

Duncan is Chairman of TAL Dai-ichi Life and a former Non-Executive Director of QBE Insurance Group.

Duncan's executive career included senior roles with a variety of financial and corporate institutions, including Royal and Sun Alliance Insurance. He also held various board roles with the Association of British Insurers, Insurance Council of Australia, Global Aviation Underwriting Managers, AAMI and APIA.

OTHER BUSINESS AND MARKET EXPERIENCE

Duncan is a former Non-Executive Director of Stockland Group and Clayton Utz.

Directorships of other listed companies held in the past three years:

- None.

SHEILA C MCGREGOR

BA (Hons), LLB, AICD Diploma – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Sheila McGregor was appointed a Director of IAG on 13 March 2018. She is a member of the Audit Committee, Risk Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Sheila is a Partner at Gilbert + Tobin, advising on business-critical technology, data, privacy and digital issues. Previously, she was a Senior Partner at Herbert Smith Freehills (then Freehills).

Sheila is a Non-Executive Director of Crestone Holdings Limited. She is also a Non-Executive Director of St Vincent's Health Australia, the Sydney Writers' Festival and Board Chair of an independent girls' school in Sydney.

Directorships of other listed companies held in the past three years:

- None.

JONATHAN (JON) B NICHOLSON

BA – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Jon Nicholson was appointed a Director of IAG on 1 September 2015. He is Chairman of the People and Remuneration Committee and a member of the Risk Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Jon is Non-Executive Chairman of Westpac Foundation, a trustee of Westpac Bicentennial Foundation and a Non-Executive Director of Cape York Partnerships and QuintessenceLabs.

He previously spent eight years with Westpac Banking Corporation, first as Chief Strategy Officer and later as Enterprise Executive. He retired from Westpac in 2014.

Jon's executive career included senior roles with a variety of financial and corporate institutions, including the Boston Consulting Group. He also held various roles with the Australian Government, including Senior Private Secretary to the Prime Minister of Australia (Bob Hawke) and senior positions in the Department of the Prime Minister and Cabinet.

Directorships of other listed companies held in the past three years:

- None.

HELEN M NUGENT AO

BA (Hons), PhD, MBA, HonDBus, HonDUniv – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Helen Nugent was appointed a Director of IAG on 23 December 2016. She is a member of the Audit Committee, Nomination Committee and Risk Committee.

Previously, Helen was Chairman of Swiss Re (Australia) and Swiss Re (Life and Health) Australia, and a Non-Executive Director of Mercantile Mutual.

OTHER BUSINESS AND MARKET EXPERIENCE

In the financial services sector, Helen was the Chairman of Veda Group and Funds SA (along with Swiss Re), as well as a Non-Executive Director of Macquarie Group for fifteen years and the State Bank of New South Wales. She also served on Westpac Banking Corporation's executive team as Director of Strategy, and prior to that specialised in the financial services sector as a partner at McKinsey & Company.

Her experience as a Non-Executive Director extends to the energy sector. Currently, she is Chairman of Ausgrid, and previously was a Director of Origin Energy. This built on work she undertook in the sector while at McKinsey.

In the arts sector, Helen is the Chairman of the National Portrait Gallery, and previously was Chairman of the National Opera Review, the Major Performing Arts Inquiry, the Major Performing Arts Board of the Australia Council, as well as being Deputy Chairman of the Australia Council and Opera Australia.

Helen has been Chancellor of Bond University and President of Cranbrook School, as well as having been a member of the Bradley Review into tertiary education.

Helen is also currently Chairman of the National Disability Insurance Agency and a member of the Board of the Garvan Institute for Medical Research. Helen was appointed Non-Executive Director on TPG Telecom effective 14 July 2020.

Helen's commitment to business and the community was recognised with her being made an Officer of the Order of Australia (AO), receiving a Centenary Medal, and being awarded Honorary Doctorates from the University of Queensland and Bond University.

Directorships of other listed companies held in the past three years:

- TPG Telecom, since 14 July 2020.

THOMAS (TOM) W POCKETT

CA, BCom – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Tom Pockett was appointed a Director of IAG on 1 January 2015. He is Chairman of the Audit Committee and a member of the Risk Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Tom is Chairman and Non-Executive Director of Stockland Group, Chairman and Non-Executive Director of Autosports Group Limited, and Deputy Chair and a Director of Sunnyfield Independence Association and a Director of O'Connell Street Associates. He previously spent over 11 years as Chief Financial Officer and over seven years as Finance Director with Woolworths Limited and retired from these roles in February 2014 and July 2014, respectively. Tom has also held senior finance roles at Commonwealth Bank, Lend Lease Corporation and Deloitte.

Directorships of other listed companies held in the past three years:

- Autosports Group Limited, since 2016; and
- Stockland Group, since 2014.

GEORGE SAVVIDES AM
BEng (Hons), MBA, FAICD – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

George Savvides was appointed a Director of IAG on 12 June 2019 and is a member of the People and Remuneration Committee, Risk Committee and Nomination Committee.

He has extensive executive experience, serving as Chief Executive Officer of leading health insurer Medibank for 14 years (2002-2016), and CEO of Sigma Company (now Sigma Healthcare) (1996-2001).

OTHER BUSINESS AND MARKET EXPERIENCE

George is a Non-Executive Director of New Zealand's Exchange (NZX) listed entity, Ryman Healthcare since 2013. He is a Non-Executive Chairman of Australian Securities Exchange (ASX) listed biotech company Next Science (since 2018) and Chairman of the Special Broadcasting Service Corporation (SBS) (since July 2020).

He is a former Non-Executive Chairman of Kings Transport and Non-Executive Chairman of Macquarie University Hospital, and served for 18 years on the Board of World Vision Australia, including six years as Chairman, retiring in 2018.

Directorships of other listed companies held in the past three years:

- Ryman Healthcare, since 2013; and
- Next Science, since 2018.

MICHELLE TREDENICK
BSc, FAICD, F Fin – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Michelle Tredenick was appointed a Director of IAG on 13 March 2018 and is a member of the People and Remuneration Committee, Risk Committee and Nomination Committee.

Michelle has held a number of senior executive roles in major Australian companies, including National Australia Bank, MLC and Suncorp. She was Chief Information Officer (CIO) for Suncorp, MLC and National Australia Bank, as well as Head of Strategy for MLC and Head of Strategy and Marketing for Suncorp. She was also CEO of MLC's Corporate Superannuation business and Head of their New Zealand Insurance and Wealth Management businesses.

OTHER BUSINESS AND MARKET EXPERIENCE

Michelle is a Non-Executive Director of the Bank of Queensland (since 2011), where she chairs the Information Technology Committee. She was recently appointed as a Non-Executive Director of First Sentier Investors in June 2020. She is a Director of Cricket Australia (since 2015) and Urbis Pty Ltd (since 2016). Michelle is also a member of The Ethics Centre Board and a member of the Senate of The University of Queensland. She is a former Chair of the IAG & NRMA Superannuation Plan (2012-2018).

She was awarded Banking and Finance CIO of the Year in 1998 and again in 2006.

Directorships of other listed companies held in the past three years:

- Bank of Queensland Limited, since 2011.

DIRECTOR WHO CEASED DURING THE FINANCIAL YEAR
Hugh Fletcher was a Director from 1 September 2007 to 25 October 2019.

COMPANY SECRETARIES OF INSURANCE AUSTRALIA GROUP LIMITED
PETER HORTON
BA, LLB

Peter Horton joined IAG as Group General Counsel and Company Secretary in December 2019.

He was previously Executive Manager Legal, Governance and Risk at Transgrid.

Peter's career has included roles as Group General Counsel and Company Secretary for QBE Insurance Group Limited, Group General Counsel and Company Secretary of Woolworths Limited, General Manager Legal and Company Secretary of WMC Resources Limited and a Corporate Lawyer then Principal Solicitor at BHP Petroleum Pty Limited.

He is also a Non-Executive Director of the not-for-profit company Business For Development.

Peter was awarded a Lifetime Achievement Award for service to corporate law and in-house legal by Global Leaders in Law in September 2018. He was the ACLA Australian Corporate Lawyer of the Year in 2002 and his teams were awarded the ACLA Australian Law Award for In-House Legal Department of the Year in 2004 and 2005 (WMC Resources Limited) and 2013 (Woolworths Limited).

JANE BOWD

FGIA, FCIS, GAICD, GradDip, LLM, LLB, BA

Jane Bowd joined IAG as the Group Company Secretary in June 2020, and leads IAG's Board Services Team.

Jane was previously the Group Company Secretary & Corporate Counsel at Coca-Cola Amatil, and prior to that was the Head of Secretariat of the Global Wealth Division at ANZ Bank. She started her legal and governance career as a private practice lawyer in top tier law firm Clayton Utz, including in Corporate M&A.

Jane holds a Graduate Diploma of Applied Corporate Governance, Master of Laws, Graduate Diploma of Legal Practice, Bachelor of Laws, Bachelor of Arts, and is a graduate of the Royal Military College, Duntroon. Jane brings deep knowledge and expertise in legal and governance matters from her financial services roles and private practice, and membership of the Governance Institute of Australia's Legislative Review Committee.

Jane is an Independent Non-Executive Director of Financial Planning Association of Australia (FPA), and is also a Committee Member on the FPA's Board Audit and Risk Management Committee, and Governance and Remuneration Committee.

SEJIL MISTRY

BProc, LLM, FGIA, FCIS

Sejil joined IAG in September 2002 and has held the role of Company Secretary since September 2015. She holds Master of Laws from the University of New South Wales and bachelor's degree in law from the University of Natal, South Africa. She also holds a Graduate Diploma of Applied Corporate Governance from the Governance Institute of Australia and is a Fellow of the Governance Institute of Australia. Sejil has over 20 years' experience in the insurance industry and has deep risk and governance experience.

MEETINGS OF DIRECTORS

The number of meetings each Director was eligible to attend and actually attended during the financial year, including those attended in an ex-officio capacity, is summarised below:

DIRECTOR	BOARD OF DIRECTORS Scheduled		BOARD OF DIRECTORS Unscheduled		PEOPLE AND REMUNERATION COMMITTEE		AUDIT COMMITTEE		RISK COMMITTEE		BOARD SUB COMMITTEE		NOMINATION COMMITTEE	
Total number of meetings held(1)	13		4		4		4		5		2		2	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Elizabeth Bryan(1),(4)	13	13	4	4	-	4	-	4	4	5	2	2	2	2
Peter Harmer(4)	13	13	4	4	-	4	-	4	-	5	2	2	1	1
Simon Allen(2),(4)	9	9	3	3	3	3	-	3	4	4	-	-	1	1
Duncan Boyle	13	13	4	4	4	4	4	4	5	5	-	-	2	2
Sheila McGregor(1),(4)	13	13	4	4	-	4	4	4	4	5	-	-	2	2
Jon Nicholson(4)	13	13	4	4	4	4	-	4	5	5	-	-	2	2
Helen Nugent(4)	13	13	4	4	-	4	4	4	5	5	-	-	2	2
Tom Pockett(4)	13	13	4	4	-	4	4	4	5	5	1	1	2	2
George Savvides(4)	13	13	4	4	4	4	-	3	5	5	-	-	2	2
Michelle Tredenick(1),(4)	13	12	4	4	4	4	-	4	4	5	-	-	2	2
Hugh Fletcher(3),(4)	4	4	-	-	1	1	-	1	1	1	1	1	1	1

(1) Elizabeth Bryan, Sheila McGregor and Michelle Tredenick were appointed to the Risk Committee on 24 October 2019.

(2) Simon Allen was appointed to the Board, Nomination Committee and Risk Committee on 12 November 2019. He was appointed to the People and Remuneration Committee on 14 November 2019.

(3) Hugh Fletcher was a member of the Board, Risk Committee, People and Remuneration Committee and Nomination Committee until 25 October 2019.

(4) Where not eligible to attend as a Committee member, the Director attended the meeting/s in an ex-officio capacity.

PRINCIPAL ACTIVITY

The principal continuing activity of IAG is the underwriting of general insurance and related corporate services and investing activities. IAG reports its financial information under the following segments:

<table>
<tr><th>DIVISION</th><th>OVERVIEW</th><th>PRODUCTS</th></tr>
<tr><td>Australia

77% of Group gross written premium (GWP)</td><td>This segment is a leading provider of general insurance products to both individuals and businesses in Australia. The Australia division benefits from its access to a variety of distribution channels and an array of well-established brands, as summarised below.

The Australian division provides consumer insurance products through branches, call centres, the internet and representatives, under the following brands:
■ NRMA Insurance in New South Wales, Australian Capital Territory, Queensland and Tasmania;
■ SGIO in Western Australia;
■ SGIC in South Australia;
■ RACV in Victoria, via a distribution agreement with RACV;
■ Coles Insurance nationally, via a distribution agreement with Coles;
■ WFI nationally; and
■ CGU Insurance nationally through affinity and financial institution partnerships and broker and agent channels.

The division also includes travel insurance, life insurance and income protection products which are underwritten by third parties.

Business insurance products are sold through a network of around 2,000 intermediaries, such as brokers, agents and financial institutions and directly through call centre and online channels, under the following brands:
■ CGU Insurance;
■ WFI;
■ NRMA Insurance;
■ RACV;
■ SGIO; and
■ SGIC.</td><td>Short-tail insurance
■ Motor vehicle
■ Home and contents
■ Lifestyle and leisure, such as boat, veteran and classic car and caravan
■ Business packages
■ Farm and crop
■ Commercial property
■ Construction and engineering
■ Commercial motor and fleet motor

Long-tail insurance
■ Compulsory Third Party (motor injury liability)
■ Workers' compensation
■ Professional indemnity
■ Directors' and officers'
■ Public and products liability</td></tr>
<tr><td>New Zealand

23% of Group GWP</td><td>The New Zealand business is the leading general insurance provider in the country in both the direct and broker/agent channels. Insurance products are provided directly to customers, primarily under the State and AMI brands, and indirectly through insurance brokers and agents, under the NZI and Lumley Insurance brands. General insurance products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.</td><td>Short-tail insurance
■ Motor vehicle
■ Home and contents
■ Commercial property, motor and fleet motor
■ Construction and engineering
■ Niche insurance, such as pleasure craft, boat and caravan
■ Rural
■ Marine

Long-tail insurance
■ Personal liability
■ Commercial liability</td></tr>
<tr><td>Corporate and other</td><td>Corporate and other comprises other activities, including corporate services, capital management activity, shareholders' funds investment activities, inward reinsurance from associates, investment in associates, and other businesses that offer products and services that are adjacent to IAG's insurance business.</td><td></td></tr>
</table>

RECONCILIATION BETWEEN THE STATUTORY RESULTS (IFRS) AND THE MANAGEMENT REPORTED (NON-IFRS) RESULTS

The discussion of operating performance in the operating and financial review section of this report is presented on a management reported basis unless otherwise stated. Management reported results are non-IFRS financial information and are not directly comparable to the statutory results presented in other parts of this financial report. A reconciliation between the two is provided in this section and the guidance provided in Australian Securities and Investments Commission Regulatory Guide 230 'Disclosing non-IFRS financial information' ('RG 230') has been followed when presenting the management reported results. Non-IFRS financial information has not been audited by the external auditor, but has been sourced from the financial reports. IAG's statutory and management reported profit before income tax from continuing operations are the same.

On 24 January 2020, and subsequently on 24 July 2020, IAG advised that its current year results would contain a provision for customer refunds. The provision comprises premium refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This provision relates to multi-year pricing-related issues identified by IAG where discounts were not always applied in full to premiums for all customers who may have been eligible. This provision is not expected to be a feature of the Group's future sustainable earnings profile. As a result, and to ensure consistency of the reporting of key insurance measures and metrics, this item has been shown below the insurance profit in the management reported view of the current year's results. This view is consistent with the approach adopted in IAG's Investor Report.

Reconciliation between the statutory results (IFRS) and the management reported (non-IFRS) results is presented below:

	STATUTORY RESULTS (IFRS)	CUSTOMER REFUND PROVISION	MANAGEMENT RESULTS (NON-IFRS PER INVESTOR REPORT)
	$m	$m	$m
Gross written premium	11,985	150	12,135
Movement in unearned premium liability	29	-	29
Gross earned premium	12,014	150	12,164
Outwards reinsurance premium expense	(4,776)	(25)	(4,801)
Net earned premium	7,238	125	7,363
Net claims expense	(5,010)	-	(5,010)
Commission expense	(1,009)	-	(1,009)
Underwriting expense	(2,070)	140	(1,930)
Reinsurance commission revenue	1,201	(19)	1,182
Net underwriting expense	(1,878)	121	(1,757)
Underwriting profit	350	246	596
Net investment income on assets backing insurance liabilities	145	-	145
Insurance profit	495	246	741
Net other operating income/(expenses)	40	(246)	(206)
Profit before income tax from continuing operations	535	-	535
Income tax expense	(37)	-	(37)
Profit after income tax from continuing operations	498	-	498
Non-controlling interests	(59)	-	(59)
Profit after income tax and non-controlling interests	439	-	439
Net loss after tax from discontinued operations	(4)	-	(4)
Profit attributable to IAG shareholders	435	-	435

The adjustments summarised above reflect the current year pre-tax earnings impact of the inclusion of the provision for customer refunds. The gross provision for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program is $290 million (refer to Note 5.3) and after recognition of a $44 million recovery from IAG's whole-of-account quota share arrangements, the current year net pre-tax earnings impact is $246 million. After tax and outside equity interests, the net cost of this provision to IAG is $141 million. This item has been excluded from cash earnings for dividend calculation purposes.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

The reported insurance margin of 10.1% was lower than the prior year (2019: 16.9%). This reflected the combined impact of an unfavourable net natural peril claims cost outcome for the year, a net prior period reserve strengthening, a negative credit spread effect and a modest reduction in the Group's underlying insurance margin.

IAG's underlying insurance margin was 16.0% compared to 16.6% in the prior year. While IAG's underlying operating performance in the first half of the year was strong and broadly in line with expectations, the second half outcome was impacted by increased reinsurance costs as a result of the higher than anticipated natural peril losses, lower investment returns and deterioration in the performance of some Australian long-tail portfolios.

Overall GWP growth of 1.1% compared to the prior year was in line with IAG's guidance of 'low single digit' growth. GWP growth in the second half of the year was 0.8% and was reduced by an estimated adverse COVID-19 impact of approximately $80 million, constraining second half growth by over 100 bps.

COVID-19 impacts

The COVID-19 pandemic has had a range of effects on IAG's business and financial performance in the current year. As referenced above, GWP is estimated to have been reduced by approximately $80 million, primarily from lower new business opportunities in the months of March to May. New business volumes have shown a recovery since the end of May and are now tracking close to pre-COVID levels in both Australia and New Zealand. However, there is increased uncertainty surrounding potential impacts associated with the recent declaration of a State of Disaster in Victoria with effect from 2 August 2020. Business retention has held at high levels in all core portfolios. Given that premium is earned over time, the COVID-19-influenced reduction in GWP has had only a minor impact on IAG's insurance profit or net profit in the current year.

In the second half of the year, IAG's underwriting profit has borne three largely offsetting COVID-19 effects (on a post-quota share basis):

- an estimated net benefit of approximately $150 million from reduced claim costs, comprising:
  - a significant benefit from lower motor claims frequency, particularly in the months of April and May. Towards the end of the current financial year a rebound in frequency was experienced as lockdown requirements generally eased, however there was a high degree of variability by state in Australia; and
  - a partial offset from claims incurred in other COVID-19 affected business classes such as landlords' insurance and travel insurance;
- a provision of approximately $100 million for potential COVID-19 claim cost impacts that are highly uncertain, sit within a wide range and have been estimated on a probability-weighted basis. This accords with accounting requirements and spans potential business interruption, landlords' and other insurance class impacts, including the estimated impact an economic downturn will have on the settlement of long-tail claims; and
- increased costs of approximately $50 million flowing from COVID-19-related measures or responses, covering:
  - additional operating expenses of approximately $30 million, mainly from moving employees to a 'working from home' basis; and
  - the decision, accelerated by the impact COVID-19 has had on customer behaviours, to close the AMI branch network in New Zealand, at a cost in excess of $20 million.

The provision for potential COVID-19 claim cost impacts, which has been estimated on a probability-weighted basis, includes an allowance for possible business interruption claim exposure in Australia. For further information refer to Note 1.2.

Separately, the COVID-19 pandemic triggered extreme investment market volatility from late February onwards. This contributed to an adverse mark-to-market credit spread effect in IAG's second half insurance profit of over $50 million and has driven a second half loss of over $230 million from shareholders' funds income, predominantly from equity and alternative asset classes.

Asia

In October 2019, IAG announced an agreed sale of its interest in SBI General Insurance Company Limited (SBI General) in India. This transaction was completed in March 2020 and resulted in a gain on sale of $326 million being reflected in profit after tax for the current year. IAG continues to explore options for its remaining Asian general insurance interests.

Provision for customer refunds

In the first half of the year IAG included a post-tax provision of $82 million for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This related to a specific multi-year pricing issue identified by IAG where discounts were not always applied in full to premiums for all customers who may have been eligible. This has been increased to $141 million post-tax for the full year, to update the initial provision, include further refund programs in respect of similar pricing issues and provide for additional related administration costs. The issues concerned were identified as part of a proactive review of pricing systems and processes, which is ongoing.

Net profit after tax

The Group's profit after tax for the year was $494 million (2019: $1,173 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the shareholders of the Company was $435 million (2019: $1,076 million) and was 60.0% lower than the prior year. This outcome included:

- an approximately 40% reduction in pre-tax insurance profit to $741 million, primarily owing to a collective adverse movement in prior period reserving, natural peril and credit spread impacts of nearly $500 million;
- an adverse $400 million pre-tax movement in investment income on shareholders' funds, flowing from the volatile investment market conditions experienced in the second half of the year; and
- inclusion of the post-tax provision of $141 million for customer refunds; partially offset by
- a $326 million profit after tax on the sale of the interest in SBI General in India, compared to a $208 million profit on the sale of the Thailand operations recognised in the prior year.

Gross written premium

Total GWP of $12,135 million (2019: $12,005 million) represented a 1.1% increase compared to the prior year. This encompassed:

- $9,367 million in Australia, representing growth of 0.4% with some improvement evident in the second half of the year, notwithstanding estimated modestly negative COVID-19 influences of approximately $60 million; and
- $2,754 million in New Zealand, translating to reported growth of 3.5% led by commercial line volumes and commercial property and liability rates. COVID-19 is estimated to have had an adverse effect in the second half of the year of approximately $20 million.

Overall GWP growth in the second half of the year was 0.8%, compared to 1.4% in the first half. Allowing for estimated adverse effects from COVID-19, as reflected in lower new business volumes, GWP growth in the second half would have exceeded 2%.

In the current year, GWP growth also absorbed the adverse impact of business exits concluded in the last financial year, principally in the area of commercial underwriting agencies in Australia, and lower Compulsory Third Party (CTP) rates stemming from scheme change.

Insurance margin

IAG's current year reported insurance profit of $741 million (2019: $1,224 million) was 39.5% lower than the prior year. The reported insurance margin decreased to 10.1% (2019: 16.9%). Contributing to this outcome were:

- an unfavourable net natural peril experience which saw related net claims costs increase by $277 million relative to the prior year;
- a net prior period reserve strengthening of $48 million, compared to net releases of $126 million in the prior year;
- a negative credit spread impact of $46 million in the current year, compared to a minor negative effect of $6 million in the prior year; and
- a modest decline in the Group's underlying margin, as described below.

Underlying margin

IAG defines its underlying margin as the reported insurance margin adjusted for:

- net natural peril claim costs less related allowance for the period;
- reserve releases in excess of 1% of net earned premium (NEP); and
- credit spread movements.

From the 2021 financial year, IAG is including zero allowance for reserve releases in its underlying margin definition based on its view of future reserve movements.

		2020		2019
INSURANCE MARGIN	**$m**	**%**	$m	%
Management reported insurance margin*	**741**	**10.1**	1,224	16.9
Net natural peril claim costs in excess of allowance	**263**	**3.6**	19	0.3
Reserve releases below/(in excess of) 1% of NEP	**122**	**1.7**	(54)	(0.7)
Credit spread movements	**46**	**0.6**	6	0.1
Underlying insurance margin	**1,172**	**16.0**	1,195	16.6

* Management reported insurance margin is the insurance profit as a percentage of NEP as disclosed in the Investor Report. Based on the statutory results, the equivalent statutory insurance margin for the current year is 6.8%.

Similar to the management reported results, the underlying insurance margin is a non-IFRS measure that is designed to present, in the opinion of management, the results from ongoing operating activities in a way that best and most appropriately reflects the Group's underlying performance.

IAG's underlying insurance margin was 16.0% (2019: 16.6%), including a softer second half outcome of 15.1%. The full year underlying margin movement included:

- approximately $50 million of additional regulatory and compliance costs, including increased investment in risk-related resources;
- a greater than 100 bps effect from lower interest rates impacting investment income;
- a broadly neutral effect from COVID-19 influences in the second half of the year; partially offset by
- further net benefits from the group-wide optimisation program which met the targeted run rate reduction of $250 million per annum in the first half of the year.

Key drivers of the lower underlying margin in the second half of the year in comparison to the first half of the year were:

- higher reinsurance costs flowing from increased cover and rates on the calendar 2020 catastrophe renewal, as well as the cost of replacement covers purchased following the peril activity early in calendar 2020;
- lower investment returns from lower interest rates; and
- a deterioration in the performance of some Australian commercial long-tail portfolios.

Tax expense

IAG reported a tax expense of $37 million (2019: $363 million), representing an effective tax rate of 6.9% (2019: 27.3%).

The low headline rate reflects the profit on sale of SBI General representing over half of pre-tax earnings and not being subject to tax in Australia. Adjusting solely for this item produces an effective tax rate closer to 23.9%.

Other contributory elements reconciling the effective tax rate to the prevailing Australian corporate rate of 30% are:

- differences in tax rates applicable to IAG's foreign operations, principally in New Zealand, Singapore and Malaysia; and
- franking credits generated from IAG's investment portfolio.

Investment income on shareholders' funds

Net investment income on shareholders' funds was a loss of $181 million (2019: $227 million profit), reflecting the extreme market volatility accompanying the onset of the COVID-19 pandemic. The adverse performance was the result of:

- the impact of volatile equity markets on portfolios in the second half of the year;
- negative mark-to-market impacts in alternative asset classes, comprising higher yielding credit strategies, global convertible bonds and hedge funds; and
- an $11 million write-down of IAG's 16.9% interest in Bohai in China.

DIVISIONAL HIGHLIGHTS

A. AUSTRALIA

Australia accounted for 77% of Group GWP and recorded a lower reported insurance margin of 7.3% (2019: 14.9%) following substantive adverse peril and prior period release movements. Australia's underlying performance of 14.9% was slightly lower than the prior year (2019: 15.5%).

I. Premiums

Australia reported GWP of $9,367 million (2019: $9,331 million) in the current year, an increase of 0.4%. After a flat performance in the first half of the year, GWP growth in the second half of the year was 0.7%, reflecting diminished adverse effect from lower CTP premiums, reduced commercial volume loss and a small negative from COVID-19 effects. COVID-19 is estimated to have reduced GWP in the second half of the year by approximately $60 million, primarily through reduced new business volumes, especially in the period March to May 2020.

The overall Australian GWP outcome includes:

- largely rate-driven growth of 2% in short tail motor, with some offset from volume;
- home growth of over 5%, which was primarily rate-derived, with some volume growth in Victoria; and
- relatively flat like-for-like commercial lines GWP, after allowance for business exits in the prior financial year, with average rate increases of approximately 5.5% countered by lower volumes; partially offset by
- a 7.5% contraction in CTP, predominantly from scheme change-driven cumulative rate reductions.

II. Insurance profit

Australia reported an insurance profit of $420 million, compared to $842 million in the prior year. This equates to a lower reported insurance margin of 7.3% (2019: 14.9%). The reduction reflects the net effect of:

- a severe shift in prior period reserving, from a favourable impact that equated to 2.0% of NEP in the prior year to a net strengthening equivalent to 1.1% of NEP in the current year;
- a greater than $200 million increase in net natural peril claims cost, compared to the prior year, with an associated reduction in margin of 360bps;
- an adverse movement in credit spread impacts of $40 million; and
- a modest net negative effect from other COVID-19 influences, embracing a moderately positive overall claims impact and higher operating expenses.

III. Underlying margin

Australia's underlying margin of 14.9% was slightly lower than the prior year (2019: 15.5%). This included a weaker second half outcome of 13.9%, which was over 200bps lower than the first half owing to the combination of:

- a small net negative on underwriting profit from COVID-19 effects;
- adverse performance in packaged portfolios mainly due to a small number of larger losses; and
- lower interest rates driving reduced investment income and not fully compensated for in pricing actions.

IV. Fee-based business

Fee-based income in Australia comprises contributions from three main sources:

- IAG's role as an agent under the Victorian workers' compensation scheme, which is underwritten by the state government;
- investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives; and
- the car servicing aspect of the MotorServe acquisition, which was purchased during the second half of the year.

Total net income from fee-based operations in the current year was a loss of $11 million, compared to a loss of $1 million in the prior year, including a second half loss of $17 million. This included:

- net costs associated with new business initiatives of approximately $19 million, including those arising from the Safer Journeys crash detection and response service;
- an initial loss of approximately $3 million from MotorServe's car servicing activities; and
- a positive contribution of $11 million (2019: $13 million) from the Victorian workers' compensation business. An improved underlying performance was achieved after allowing for $5 million of prior period fee income (2019: $10 million), which is typically reported in the opening half of the financial year. The decrease in prior period income was as expected as IAG moves further into its five-year contract and opportunities to generate returns from tail incentive fees and scheme actuarial releases diminish.

B. NEW ZEALAND

New Zealand accounted for 23% of Group GWP and recorded a lower reported insurance margin of 20.2% (2019: 24.7%) following significantly higher net natural perils claim costs and higher large claims experience. New Zealand's underlying insurance margin of 18.6% was also lower than the prior year (2019: 19.5%).

I. Premiums
New Zealand's current year GWP grew by 3.5% to $2,754 million, compared to prior year GWP of $2,660 million. This increase included a favourable foreign exchange translation effect, with local currency GWP increasing by 2.4%, to NZ$2,904 million (2019: NZ$2,836 million). This result was driven by the combination of:

- strong GWP growth from Business, driven by volume increases across all key commercial line portfolios and higher rates in commercial property and liability; and
- Consumer GWP holding to prior year levels, with growth experienced in the commercial motor and AMI private motor portfolios through increased rates and volume.

II. Insurance profit
The New Zealand business reported an insurance profit of $330 million, compared to $390 million in the prior year. This equates to a reported insurance margin of 20.2% (2019: 24.7%). The reduction reflects the net effect of:

- significantly higher net natural peril claim costs, centred on the Canterbury hailstorm;
- higher large claims experience; and
- lower investment income on technical reserves, reflecting reduced interest rates; partially offset by
- increased net earned premium, driven by solid GWP growth in the Business division; and
- a modest net benefit from COVID-19 effects, with lower motor frequency benefits countered by increased operating costs, including those related to the AMI branch network closure.

Prior period reserve releases of $18 million were slightly higher than those recognised in the prior year (2019: $14 million). The bulk of the releases occurred in the first half of the year and were predominantly sourced from professional indemnity exposures to residual post-Canterbury earthquake risks.

III. Earthquake settlements
Good progress continues to be made with the settlement of claims associated with the legacy Canterbury earthquake events. At 30 June 2020 over NZ$7.2 billion of claim settlements had been completed, with less than 900 claims remaining open out of the more than 90,000 received.

During the second half of the year, IAG increased its gross reserved position on the three major earthquakes in financial year 2011 by NZ$100 million, with all of this covered by reinsurance. Considerable legacy reinsurance protection remains for the September 2010 and June 2011 events, and approximately NZ$480 million of adverse development cover is still available in relation to the February 2011 event.

Outstanding Canterbury earthquake claims include those subject to dispute and litigation, as well as recently-received over-cap claims from the Earthquake Commission (EQC). It remains IAG's expectation that finalisation of all residual claims will take several years given associated complexity.

C. CORPORATE AND OTHER
A pre-tax profit of $43 million was reported in this segment, which compares to a profit of $99 million in the prior year. The movement primarily reflects the reduction in net investment income on shareholders' funds of $408 million partially offset by an increase of $333 million in other net operating result. The favourable movement in the other net operating result predominantly reflects the gain on sale of IAG's interest in SBI General in India of $309 million (excluding the favourable taxation effects, included in tax expense).

I. Share of net profit/(loss) of associates
The Group's share of associates was a profit of $57 million (2019: $42 million). This result includes AmGeneral Holdings Berhad (AmGeneral) in Malaysia and SBI General profit for the nine-month period up until the sale in March 2020. As IAG has significantly wound back its activities in the Asia region, related support and development costs have materially reduced.

REVIEW OF FINANCIAL CONDITION
A. FINANCIAL POSITION
The total assets of the Group as at 30 June 2020 were $29,694 million compared to $29,286 million as at 30 June 2019. Movements within the overall net increase of $408 million include:

- a decrease in investments of $584 million associated with the payments of the 2019 final dividend and 2020 interim dividend totalling $693 million and redemption of the reset exchangeable securities (RES) of $550 million. This has been partially offset by the proceeds from the sale of IAG's interest in SBI General and operating earnings for the year;
- a decrease in investment in joint ventures and associates of $193 million, reflecting the derecognition of the investment in SBI General following IAG's sale of its holding in the entity; offset by
- a $531 million increase in right-of-use assets primarily associated with the initial application of the new lease accounting standard (*AASB 16 Leases*);
- a $290 million increase in reinsurance and other recoveries on outstanding claims primarily associated with the increase in natural peril costs during the financial year and increase in recoveries on long-tail classes due to the downward movement in the yield curve;
- a $249 million increase in trade and other receivables, predominantly relating to an increase in reinsurance recoveries on paid claims in respect of natural peril events during the year; and
- a $122 million increase in deferred tax assets attributable to the increase in provisions and potential COVID-19 claim liabilities recognised during the year.

The total liabilities of the Group as at 30 June 2020 were $23,340 million compared to $22,576 million as at 30 June 2019. Movements within the overall net increase of $764 million include:

- a $655 million increase in lease liabilities associated with the initial application of the new lease accounting standard (*AASB 16 Leases*);
- a $288 million increase in the outstanding claims liability representing the impact of higher reserves for natural perils, COVID-19 allowances, strengthening across Australian long-tail reserves and yield curve impacts;
- a $250 million increase in provisions predominantly reflecting amounts provided for customer refunds; offset by
- a $554 million reduction in interest-bearing liabilities following the redemption of the RES during the year.

IAG shareholders' equity (excluding non-controlling interests) decreased from $6,404 million as at 30 June 2019 to $6,077 million as at 30 June 2020, reflecting the combined impact of:

- current year net profit attributable to shareholders of $435 million;
- payments totalling $693 million in respect of the 2019 final dividend and 2020 interim dividend; and
- $33 million reduction in opening retained earnings on initial application of *AASB 16 Leases*.

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the year ended 30 June 2020 were $381 million compared to net cash inflows of $589 million for the prior year. The movement is mainly attributable to the net effect of:

- an increase in claim costs paid of $736 million offset by an increase in reinsurance and other recoveries received of $728 million largely attributable to the increase in natural peril events compared with the prior year;
- a $151 million increase in outwards reinsurance premiums paid reflecting the timing of the instalments paid on the catastrophe cover compared with the prior year and the additional premiums paid for reinstatement and the buy-down cover on the Group catastrophe programme; and
- an increase in other operating payments of $217 million, predominantly driven by the timing of settlement to creditors.

C. INVESTMENTS

The Group's investments totalled $10,100 million as at 30 June 2020, excluding investments held in joint ventures and associates, with 57% represented by the technical reserves portfolio. The decrease in total investments since 30 June 2019 ($10,684 million) reflects the combined effect of:

- $693 million of dividends paid including the prior year's final dividend and the current year's interim dividend;
- redemption of the $550 million RES in December 2019;
- the impact of falling equity markets in the second half of the year, both domestically and overseas, and negative mark-to-market impacts in alternative asset classes; partially offset by
- net proceeds received following completion of the sale of IAG's operations in India ($579 million) and Indonesia ($14 million); and
- operating earnings during the period.

IAG's overall investment allocation is defensively positioned, with over 89% of total investments in fixed interest and cash as at 30 June 2020. Technical reserves, which back insurance liabilities, are wholly invested in fixed interest and cash. A more diversified approach is taken to shareholders' funds, comprising a mix of fixed interest and cash and growth assets (equities and alternatives). IAG's allocation to growth assets was 25% of shareholders' funds at 30 June 2020, compared to 42% of shareholders' funds at 30 June 2019. The reduction in the allocation to growth assets reflects the combined impact of:

- the net fall in domestic and offshore equity markets;
- mark-to-market impacts in alternative asset classes;
- some active reallocation of funds to fixed interest and cash; and
- the investment of nearly $600 million of net proceeds from the sale of SBI General into conservative asset classes.

D. INTEREST-BEARING LIABILITIES

IAG's interest bearing liabilities stood at $1,526 million at 30 June 2020, compared to $2,080 million at 30 June 2019. The net movement in the period largely reflects IAG's redemption of the $550 million RES in December 2019.

E. CAPITAL MIX

IAG measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. IAG targets the following ranges:

- ordinary equity (net of goodwill and intangibles) 60-70%; and
- debt and hybrids 30-40%.

At 30 June 2020, debt and hybrids represented 32.2% (2019: 36.5%) of total tangible capitalisation, towards the lower end of IAG's targeted debt range. The decrease since the prior year largely reflects the impact of the RES redemption.

Subject to market conditions, IAG may seek to issue a new Tier 2 subordinated instrument next year to provide additional liquidity.

F. CAPITAL POSITION
Under the Australian Prudential Regulatory Authority's (APRA) Prudential Standards, IAG's Common Equity Tier 1 (CET1) capital was $2,567 million (2019: $3,082 million) and regulatory capital of $4,098 million (2019: $4,981 million) at 30 June 2020. IAG has set the following related targeted benchmarks:

- a CET1 target range of 0.9 to 1.1 times the Prescribed Capital Amount (PCA), compared to a regulatory requirement of a minimum of 0.6 times; and
- a total capital position equivalent to 1.6 to 1.8 times the PCA, compared to a regulatory requirement of a minimum of 1.0 times.

At 30 June 2020, IAG had a CET1 multiple of 1.23 (2019: 1.31) and a PCA multiple of 1.97 (2019: 2.12).

IAG has increased its targeted PCA multiple range from 1.4 to 1.6 times to 1.6 to 1.8 times. This reflects reduced reliance on inter-company loans from Australian insurance subsidiaries to IAG's non-operating holding company, as required by APRA following the licence consolidation completed in 2017.

Further capital management details are set out in Note 3.1 within the financial statements.

STRATEGY AND RISK MANAGEMENT
A. STRATEGY

MAKING CUSTOMERS FEEL SAFER ON THE ROAD, IN THEIR HOMES AND AT WORK

IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves, IAG exists to 'make your world a safer place'. IAG believes its purpose will enable it to meet the changing needs of its customers, become a more sustainable business over the long term and deliver stronger and more consistent returns for its shareholders.

Over the last four years, IAG has focused on three key areas:

- Gaining a deeper and better understanding of its customers;
- Delivering a simpler more streamlined operating platform; and
- Developing an agile, adaptable workforce.

With simplification continuing, IAG has increased its focus on customer engagement and longer-term growth. This includes:

- Delivering better insurance experiences to customers through enhanced capabilities in data, digital, analytics and artificial intelligence, brand and innovation;
- Extending its strategic partnerships to offer products and services that are adjacent to its insurance business, enabling IAG to make its customers and the community feel safer on the road, in their homes and at work; and
- Leveraging its assets – including data, customer reach and brands – to launch new businesses that complement these adjacent products and services.

IAG's objective is to grow the number of customers in its network of brands.

The progress IAG has made in the delivery of its strategy has positioned it to be well placed to respond to the disrupted and uncertain operating environment that will be shaped by the COVID-19 pandemic, with strong momentum occurring across the initiatives that underpin its three key strategic priorities:

I. Customer – World-leading customer experiences

- Create a delivery platform that transforms customer experiences;
- Better connect customers and automate processes, enabling IAG to reach more customers in a timely manner;
- Develop an innovation approach which provides the ability to think differently and deliver quickly;
- Embed cognitive capabilities and artificial intelligence that anticipate customers' needs; and
- Use data to power decision-making, allowing IAG to better understand its customers.

II. Simplification – Simplified, modular and lower cost operating model

- Reduce organisational complexity by consolidating technology platforms, harmonising products, simplifying processes and systems, and executing the technology strategy;
- Leverage operational partners to optimise the operating model and drive scale economies across the value chain; and
- Improve allocation and maximise utilisation of the preferred repairer network to reduce average claim size.

III. Agility – An agile organisation distinguished by innovation, speed and execution skills

- Create a disciplined approach to IAG's management and leadership, including building stronger role clarity and introducing agile ways of working;
- Build a talent pipeline based on the skills required to deliver IAG's strategy and help IAG people transition to the future of work; and
- Be recognised as a purpose-led organisation that shapes its internal and external environment.

B. BUSINESS RISK AND RISK MANAGEMENT

IAG acknowledges that it has to take risk in an informed manner in pursuit of its strategic objectives and to meet customer, stakeholder, industry and regulatory expectations. IAG articulates the levels, boundaries and nature of risk it is willing to accept, actively manage or avoid in pursuit of the Group's strategic objectives.

IAG uses an enterprise-wide approach to risk management and its Risk Management Framework (RMF) is a core part of the governance structure, which includes internal policies, key management processes and culture. The Group Risk Management Strategy (RMS) articulates the strategy to manage risks at IAG and describes the key elements of the RMF to implement this strategy. The RMS is reviewed annually, or more frequently as required, by the Risk Committee before being recommended for approval by the Board. IAG's Group Risk function provides regular reports to the Risk Committee on the operation of, and any changes to, IAG's Risk Management Framework, the status of material risks, risk and compliance incidents, risk trends and IAG's risk profile. IAG's Group Internal Audit function provides reports to the Audit Committee on significant audit findings and other audit related matters.

Roles and responsibilities of the Board and its standing committees, the Audit Committee, the Risk Committee, the People and Remuneration Committee and the Nomination Committee, are set out in the Corporate Governance section of the IAG website.

IAG is exposed to multiple risks relating to its businesses and pursuit of its strategic objectives. The risks noted below are not exhaustive, but outline the material risks faced by the Group as identified in the RMS:

- strategic risk – the risk that internal or external factors compromise our ability to execute our strategic objectives or our strategy;
- customer risk – the risk of failing to meet customer expectations leading to lower customer satisfaction, retention rates or new business opportunities;
- insurance risk – includes the risk of loss as a result of:
  - inadequate or inappropriate underwriting or product pricing;
  - unforeseen, unknown or unintended liabilities that may eventuate;
  - inadequate or inappropriate claims management including reserving; and
  - insurance concentration risk (i.e. by locality, segment factor, or distribution);
- reinsurance risk – includes the risk of:
  - lack of capacity in the reinsurance market;
  - insufficient or inappropriate reinsurance coverage;
  - inadequate underwriting and/or pricing of reinsurance exposures retained by IAG's reinsurance captives;
  - inadequate or inappropriate reinsurance recovery management;
  - reinsurance arrangements not legally binding; and
  - reinsurance concentration;
- market risk – the risk of adverse movements in market prices (equities, derivatives, interest rates, foreign exchange, etc) or inappropriate concentration within the investment funds;
- credit risk – the risk arising from a counterparty's failure to meet its obligations in accordance with the agreed terms. This includes investment and derivative counterparties, reinsurers and premium debtors;
- liquidity risk – arises where liabilities cannot be met as they fall due as a result of insufficient funds and/or illiquid asset portfolios;
- capital risk – the risk that capital is insufficient or not of the best form (the mix of debt, equity and reinsurance is inappropriate) given the nature, strategies and objectives of the Group;
- operational risk – the risk of loss resulting from the actions or behaviours of people, inadequate or failed processes or systems, or from external events;
- regulatory and compliance risk – the risk of legal, regulatory or reputational impacts arising from failure to manage compliance obligations, or failure to anticipate and prepare for changes in the regulatory environment; and
- culture and conduct risk – the risk that employee behaviours are contrary to our Purpose, our Spirit or our Code of Ethics and Conduct or do not otherwise meet reasonable community expectations.

IAG actively considers the importance of risk management and believes this approach provides the greatest long-term likelihood of being able to meet the objectives of all stakeholders.

Detail of IAG's overall risk management framework, which is outlined in the RMS, is set out in Note 3.1 within the financial statements and in the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance.

C. ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK

Aligned to stakeholder expectations, this report provides a comprehensive overview of IAG's focus on economic, environmental and social sustainability risks that are identified and managed as part of its enterprise-wide risk management framework. Through risk profiling and ongoing trend analysis, information on these risks is collected and reported to the Group Leadership Team (GLT) and Board and used to update IAG's strategy at appropriate intervals. This is supported by IAG's annual materiality process and engagement with IAG's Safer Communities Steering Committee to identify and develop mitigation approaches to these risks.

IAG's exposure to economic, environmental and social sustainability risks and opportunities is managed by relevant parts of the business and supported by IAG's Safer Communities team, a team of shared value and sustainability subject matter experts. Sustainability performance is formally reported to the Board annually, with ad hoc updates as required.

The Consumer Advisory Board and Ethics Committee include external stakeholders, such as consumer groups, and provide an important external input into the understanding and management of economic, environmental and social sustainability risk. The Safer Communities Steering Committee is an internal governance body that supports the Group Executive, People, Performance and Reputation to shape IAG's response to risks through its approach to shared value, sustainability and broader community activity. The Safer Communities Steering Committee fulfils the role of a sustainability committee for IAG. It meets at least quarterly, is chaired by the Group Executive, People, Performance and Reputation, and comprises senior leaders from across the business, including the Chief Strategy and Innovation Officer.

Each year a materiality assessment is undertaken to help guide IAG's shared value and sustainability approach and ensure its reporting addresses risks and opportunities with the greatest importance to IAG's stakeholders and business. An extensive assessment and stakeholder engagement process supports IAG in the finalisation of the material issues, which are signed off by the Group Executive, People, Performance and Reputation and included in the IAG Annual Review and Safer Communities Report.

IAG has a safer communities business plan that guides decision-making and ensures value is being created for both the community and IAG. This IAG-wide business plan defines focus areas and outcomes that support IAG's commitment to help communities and people to be more resilient and increasingly feel they are ready for anything. IAG's sustainability performance is managed within this business plan and supported by a number of policies and position statements including IAG's Public Policy Position on Climate Change, Customer Equity Framework and the Social and Environmental Policy.

IAG is a signatory to several voluntary principles-based frameworks which guide the integration of environmental, social and governance (ESG) considerations into its business practices. These include the United Nations Environmental Program Finance Initiative's Principles for Sustainable Insurance and the Principles for Responsible Investment. IAG is a signatory to the Geneva Association's Climate Risk Statement and a founding member of the Australian Sustainable Finance Initiative, which is a cross-industry collaboration established to enable the financial services sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with global goals such as the United Nations Sustainable Development Goals, the Sendai Framework for Disaster Risk Reduction and the Paris Agreement on climate change.

Climate change has been identified as a key enterprise risk and work has been done on implementation and monitoring of business controls and their effectiveness overseen by the Climate Risks and Opportunities Steering Committee (see Climate Risk section for more details).

Respect for human rights underpins IAG's purpose and its conduct as an ethical and responsible business. IAG's approach is informed by international human rights standards, including the UN Guiding Principles on Business and Human Rights, the International Bill of Human Rights and the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work.

IAG is addressing Human Rights and Modern Slavery legislative requirements across its business, including in its procurement, asset management and human resources business units. IAG's Procurement Policy and Supplier Code of Conduct, which was launched this year, addresses Human Rights and Modern Slavery, and supports practical management of these important issues across IAG's business. IAG's first Modern Slavery Statement will be published during the 2021 financial year, in line with relevant regulatory frameworks, and will show progress toward compliance with these recent legislative requirements.

Details of IAG's material issues, how IAG manages related risks and opportunities and details of other shared value and sustainability activities can be found in the 2020 Annual Review and Safer Communities Report, which is available at www.iag.com.au/safer-communities/esg-commitments-and-performance. IAG's management of economic, environmental and social sustainability risk is outlined in detail in Principle 7.4 of the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance.

D. CLIMATE RISK

This climate-related disclosure is aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and addresses how IAG is managing climate risks and opportunities through governance, strategy, risk management, and metrics and targets.

It demonstrates:

- the work IAG has done to understand which climate risks could have a material impact on its business through both the physical and transitional risk pathways;
- the need for strong governance;
- risk management and strategic integration of climate considerations into its core operations; and
- the partnerships, activities and programs it is involved in to mitigate climate risks and innovate opportunities.

IAG's purpose is to make your world a safer place. To deliver this purpose, IAG works to mitigate risks the communities, businesses and individuals it insures are exposed to. IAG acknowledges its unique ability to help communities prepare for and manage climate impacts, while realising the business opportunities of a safer world. Consistent with the latest climate science, IAG's research, climate scenarios, claims and industry data indicate that climate change will increase the social and financial impacts to communities in Australia and New Zealand and is a key risk to its insurance business.

According to the Australian Bureau of Meteorology, the 2019 calendar year was the hottest and driest on record for Australia, which included one of the worst bushfire seasons on record, followed by severe hail and flood events. This extreme weather has contributed to a significant increase in the current financial year's net claim costs from natural perils, compared to the prior financial year. Such impacts emphasise a greater urgency for businesses, governments and communities to understand and mitigate the short, medium and long-term causes and impacts of climate change. For IAG, this requires continued integration of the management of climate-related risks and opportunities into strategic planning to ensure it can remain a sustainable business.

IAG has made important contributions to climate change discussions and supported action for almost two decades. In November 2019, IAG released a joint scientific report with the United States National Center for Atmospheric Research (NCAR), "Severe Weather in a Changing Climate", that condensed the latest global scientific knowledge on how weather events will change under future climate scenarios. This was a landmark report, with IAG sharing detailed information on physical risks, with intent to create a shared central source of information for the broader insurance industry and scientific community to build on.

Governance

IAG's Board Charter includes oversight of safer communities, sustainability and climate change, which now includes the activities outlined below:

- approve the IAG Social and Environmental Framework;
- receive six-monthly reporting on safer communities and sustainability; and
- consider and approve the external reporting on safer communities and sustainability strategies and initiatives (including climate change), within the Annual Report and the Annual Review.

In accordance with the IAG Board Charter, the Board delegates overall management and profit performance of the Group to the Chief Executive Officer. The Group Executive, People, Performance and Reputation has accountability for IAG's Safer Communities function, including oversight of the Safer Communities Plan, climate change activities and the Climate Action Plan. Accountabilities for key objectives and programs outlined in the Climate Action Plan are owned by relevant GLT members. Progress against IAG's Climate Action Plan is reported to the GLT every six months, and the accountabilities held by relevant members of the Executive team are listed under the specific Climate Action Plan objectives.

Further details on IAG's climate change governance are provided in the Climate-related disclosure 2020 which can be found in the Safer communities section of IAG's website (www.iag.com.au).

Strategy

Integration of climate change within IAG's corporate strategy

IAG recognises climate change is a key consideration to ensure the sustainable growth of its business. In setting its strategy, IAG identified climate change as a key trend that directly influences the stability and growth of its businesses. Climate change continues to be a trend that the organisation monitors and discusses at GLT and Board sessions.

IAG has developed a strong understanding of climate change trends via research on natural perils and climate modelling as well as through collaboration with other organisations. This knowledge informs understanding and management of the increasing risk of extreme weather events on the business in the short, medium and long term.

IAG's plan to manage climate risks and opportunities

IAG is committed to 'make your world a safer place' and its approach to creating safer communities is informed by the United Nations Sustainable Development Goals, the 2015 Paris Climate Agreement, Sendai Framework for Disaster Risk Reduction, issues material to IAG's business and IAG's unique resources, capabilities and assets.

IAG's Safer Communities Plan includes a focus on disaster risk reduction and climate change – enabling communities in Australia and New Zealand to better prepare for, and respond to, natural perils and climate change. Key objectives to address disaster risk reduction and climate change are included and disclosed in its Climate Action Plan and Scorecard, which can be found in the Safer communities section of IAG's website (www.iag.com.au).

The five areas of focus in its Climate Action Plan are:

- think big – to ensure IAG leads on climate change issues and builds relationships to achieve its ambitions;
- prepare our people – to apply the depth of experience from the business, and build the capacity of IAG's people to enable embedding of climate change considerations into its culture;
- reduce our emissions – to lead by example and commit to science-based emissions reduction for IAG's own operations;
- invest responsibly – to ensure IAG's investment activities are aligned to our purpose; and
- rethink risk – ensuring climate change considerations are integrated into the core of IAG's insurance business to allow innovation of products, systems and partnerships to enable customers, business and communities to adapt to a low-carbon future and changing climate.

Leadership and collaboration for disaster risk reduction and climate change

Mitigating the impacts of climate change to IAG's business, customers and communities requires a collaborative, multi-stakeholder approach. To address this, IAG demonstrates leadership in disaster risk reduction and climate change and works with, and influences other companies, organisations and governments to address climate-related issues. This includes contributing valuable knowledge, insights and capability towards understanding how climate risks and opportunities impact the sustainability of financial systems.

Alongside other global insurers, IAG is currently contributing to the United Nations Environmental Program Finance Initiative's Principles for Sustainable Insurance TCFD pilot to enable industry benchmarking and standardisation of disclosure, which will inform IAG's ongoing approach to strategic integration of climate risks into its core business, risk assessments, scenario analysis and climate modelling.

IAG also contributes knowledge, insights and capability towards developing sector-wide approaches to the availability and affordability of insurance products and addressing sustainability issues which are affecting financial systems. IAG plays an active role as Co-Chair of the Australian Sustainable Finance Initiative (ASFI), which is working to set a roadmap for realigning the finance sector to support enhanced social, environmental and economic outcomes. IAG also plays a key role in New Zealand's Sustainable Finance Forum, an initiative of The Aotearoa Circle, which is a partnership of public and private sector leaders committed to sustainable prosperity and the conservation of natural resources across the country.

As a founding member of the Australian Business Roundtable for Disaster Resilience and Safer Communities, IAG works collaboratively with governments to effect change in public policy, increase investment aimed at building safer and more resilient communities and working to improve the capacity of people and businesses to better withstand future natural disasters. IAG has also been invited by the governments in Australia and New Zealand to play a role in climate change management, including active engagement and contribution to the National Resilience Taskforce in Australia. In New Zealand, IAG is working through the Climate Leaders Coalition to ensure businesses are actively adapting and building resilience to climate impacts. As a key member of the Insurance Council of Australia, the representative body of the general insurance industry in Australia, IAG plays an active role in the Council's Climate Change Action Committee and Data and Knowledge Sub-Committee.

IAG also works in collaboration with communities and partners to build community connection and resilience to climate change that also support business outcomes. This includes strategic partnerships working with the Australian and New Zealand Red Cross and the State Emergency Service in New South Wales to improve individual and community disaster preparedness.

Consideration of climate change in underwriting

Further to IAG's commitment to the cessation of insuring entities predominantly in the business of extracting fossil fuels and power generation using fossil fuels by 2023, IAG is assessing and considering other ESG aspects of its underwriting processes to drive behaviour change across its value chain.

IAG's underwriting approach incorporates ESG considerations and extensions for its insurance products. These are included in the IAG Group Product Governance Framework which aligns the product development process with IAG's purpose to 'make your world a safer place'.

Consideration of climate change in investments

"Invest responsibly" is a focus area in IAG's Climate Action Plan. It commits IAG to:

- shift investments to companies that have a lower exposure to climate-related risks or a have a strategy to manage these risks;
- actively support action on climate change and a net zero future; and
- measure carbon intensity and include climate-related risks in the ESG risk management of investments.

IAG, and many of the investment managers through which it invests, are signatories to the United Nations Principles for Responsible Investment that encourages signatories to advocate that companies and countries in which they are investing integrate ESG factors into their investment processes and practices.

IAG utilises external ESG research and the capabilities of its investment managers to review its climate-related investment exposures, assess the carbon footprint and exposure to higher risk investments, and to inform portfolio management. Investment due diligence considers investment managers' capabilities to incorporate ESG issues where appropriate. An outline of IAG's approach and current performance is included in the metrics and targets section of this disclosure.

IAG 2030 +2°C climate scenarios supporting strategy and decisions

IAG has developed four plausible scenarios to better understand the most significant likely impacts of climate change and related physical, transition and litigation risks and opportunities for IAG's Australian business by 2030. These "2030 +2°C climate scenarios" utilised IAG's own climate physical modelling and were developed through a series of cross-functional workshops. These involved IAG leaders and external stakeholders and focused on determining the most significant political, economic, social, technological, environmental and legal factors impacted by a +2°C temperature increase by 2030.

Risk

IAG regularly profiles and assesses risks to the successful execution of its enterprise strategy. Climate change is identified as a key risk in the 2020 Enterprise Risk Profile. IAG's integrated approach to climate risk management is evidenced by its Climate Action Plan 'rethink risk' focus area and the Climate Risks and Opportunities Program.

Managing climate risks and opportunities

The Climate Risks and Opportunities Program is a key input into the Safer Communities Steering Committee, and fulfils key components of the Climate Action Plan to:

- better understand the short, medium and long-term risks and opportunities of climate change to IAG;
- integrate strategic risks and opportunities resulting from the Climate Risks and Opportunities Program into IAG's business; and
- support investor and market confidence through meaningful climate-related financial disclosure.

The Climate Risks and Opportunities Program was created to ensure the sustainability of IAG's business in the near and long term by identifying how to mitigate and adapt to the impacts of climate change. This leverages the understanding and research of the specific physical, transition and litigation risks IAG is exposed to, and how they will impact IAG's business.

Further details on IAG's research into climate-related impacts and associated risks and opportunities are provided in the Climate-related disclosure 2020 which can be found in the Safer communities section of IAG's website (www.iag.com.au).

Research on physical risks

Since publishing "The Impact of Climate Change on Insurance against Catastrophes" in 2002, IAG emphasised the need to invest in climate science to understand, mitigate and adapt to the impact climate change will have on severe weather and IAG's business. IAG also works collaboratively on research and sharing intellectual property to drive behavioural change across the insurance industry and its value chain. This helps to gain a strategic advantage in accessing up-to-date knowledge and points of influence.

On 1 November 2019, IAG released "Severe Weather in a Changing Climate", a scientific report co-authored with NCAR. The report includes the latest scientific knowledge on how climate change could impact future extreme weather events – like tropical cyclones, hailstorms, bushfires and rainfall – based on a range of warming global temperature scenarios, as well as insights on natural peril impacts from IAG's proprietary models. Of key concern is the increased likelihood of tropical cyclones impacting populated areas of Southeast Queensland and Northern New South Wales. Without commensurate risk reduction, this is identified as having a potential material long-term impact on the availability and affordability of (re)insurance.

Such findings highlight the need for a collaborative approach to scale up resilience and mitigation planning by individuals, communities, businesses and governments to adapt to the changing physical impacts brought about by climate change, and adjacent impacts of underinsurance and financial inclusion.

IAG is using this research to continue informing its strategy. The research also helps IAG lead engagement across the insurance and academic sectors to improve the quality of insights around climate modelling and inform the wider community of the severe weather challenges that are likely to be exacerbated by climate change.

Examples of how IAG currently manages the impacts of physical risks to its business include:

- modelling the potential changes to severe weather and the impact on property risk such as the IAG physical risk scenarios and the "Severe Weather in a Changing Climate" report;
- identifying risk reduction opportunities through changes to the built environment including land planning controls;
- a comprehensive, and diverse, range of reinsurance protection (for more information on IAG's reinsurance program, please see the "Reinsurance" section of the 2020 IAG Investor Report);
- investing in community connection and resilience partnerships that proactively prepare for climate-related risks to reduce the social and financial costs of disaster recovery; and
- influencing land planning and building codes – especially in demonstrating leadership on coastal planning and erosion.

Research on transition risks

IAG commissioned EY and Climate Works Australia to undertake a climate transition impact analysis to understand implications for its business associated with societal transitioning to climate change. This assessment utilised three scenarios for IAG's Australian business and two scenarios for its New Zealand business that were consistent with projections for limiting long-term global warming, in alignment with the Paris Agreement, by 2030 and 2050. The analysis focused on transition impacts to:

- IAG premiums from underwriting commercial risks;
- technologies associated with IAG's home and motor portfolio; and
- regional supply chain implications from anticipated regulation of carbon.

The findings have identified that, while there are some risks to smaller portfolios (such as agriculture) in the medium-term, the risk to supply chain costs through carbon pricing are relatively immaterial with the uplift in costs estimated to be in the range of 0.03-0.05% by 2030 and 0.00-0.03% by 2050. Additionally, there are also growth opportunities to be considered across expanding sectors and technologies.

Impact of climate risks and opportunities

IAG's research on physical and transition climate risks has confirmed that the physical impacts of climate change present the most material short, medium and long-term risk to IAG's business. Transition impacts are less material with manageable medium-term risks and emerging opportunities to IAG's product, customer and investment portfolios. A preliminary analysis of the climate risks and opportunities that will impact key areas of IAG's business value chain, as well as activities IAG will take to address these impacts, is outlined below.

Reinsurance and capital

- Risks from increased severity and frequency of extreme weather events, without risk reduction initiatives, could impact the cost and availability of global reinsurance capacity.
- In a local context, over the short term, changes to events such as hailstorms and bushfires will need to be reflected in technical pricing assumptions. In the medium term, cyclones are expected to extend southward to more populated parts of Australia, potentially adversely impacting assets and infrastructure that were not built to withstand such events.
- Opportunities include further improvements in modelling and forecasting peril impacts to continue to inform the design of IAG's capital platform.
- As a mitigant to these impacts, IAG will improve quality of insights from climate modelling through engagement across insurance and academic sectors to inform the wider community of evolving climate change risks.

Product and service pricing

- Risks from increased natural peril costs impacting the long-term affordability of insurance, especially in high-risk areas.
- Opportunities exist for IAG to reduce risks by advocating for, and providing technical input on, improved building codes, land planning and risk mitigation for physical infrastructure. This can be achieved by scaling up collaboration with programs that offset and reduce future risks (such as the Queensland Government's Housing Resilience Program). This can also be supported by further innovation around insurance products that incentivise improved resilience to risks, and development of products such as low carbon home and mobility solutions.
- To address these issues, IAG will continue to integrate its technical peril pricing engine into its wider pricing engine algorithm, while expanding research on key features of resilient and vulnerable properties to support more accurate pricing and target risk reduction opportunities.

Customer segments and affordability

- Risks include the ongoing accessibility and affordability of insurance products which can be impacted if the insurance industry appropriately adjusts risk-based pricing to account for changes in the severity and frequency of natural perils. Inadequate land planning and building codes will further exacerbate affordability of insurance. In the medium term, IAG could face a shrinking market and reputational risk as assets with high exposure to physical risks become more expensive or unaffordable to insure.
- Opportunities include greater alignment of land planning and building codes to future severe weather events, which can reduce climate risks for customers.
- IAG will continue to engage customers to understand appropriate and relevant approaches to managing climate-related risk through existing insurance products and services, in alignment with appropriate customer segment strategies. This includes further work with stakeholders to enable climate resilient rebuilding to reduce risks for customers exposed to climate-related perils.

Claims and insurance supply chain

- Risks of growing numbers of natural perils related claims was demonstrated by the bushfire, hail and storm events this financial year. This presents a short-term risk to operational claims handling capacity. In the medium term, supply and demand imbalances have the potential to impact claims inflation. Underlying supply chain costs could be impacted by limited availability of raw materials and potential carbon regulation but, as noted above, this is expected to be relatively immaterial.
- Opportunities from new products, materials and operating models (such as vertically integrating supply chains) may become more prevalent and encourage repair or replacement of insured assets to increase risk resilience and environmental sustainability.
- To help to mitigate these risks, IAG is looking to use the transition risk analysis to assess how its motor repair model can improve supply chain security and is continuing to understand how a climate resilient rebuild claims model supports reductions in future claims frequency and severity.

Investments

- Risks from climate change transitions will have a varied impact on investments, with some assets anticipated to yield decreasing returns, while others increase.
- Opportunities for IAG include influencing and encouraging responsible investment by directing investments to projects aligned to its purpose and risk appetite.
- To address these effects, IAG will look to continue considering the implications of potentially stranded assets, carbon-intensive industries and evolving opportunities in determining its investment strategy and portfolio allocations.

Metrics and Targets

IAG has set targets on managing its climate risks that include reducing emissions from its own operations and reducing climate risk exposure through its underwriting and investment portfolios.

METRIC	TARGET	PROGRESS
Managing IAG's greenhouse gas emissions with science-based targets Climate Action Plan: reduce our emissions	Using the 2018 financial year as its baseline, IAG set science-based absolute emission reduction targets for its Group Scope 1 and 2 emissions to meet the Paris Agreement commitments to keep climate change below 2°C. These absolute targets for Scope 1 and 2 emissions include a 20% reduction by 2020, 43% reduction by 2025, 71% reduction by 2030 and a 95% reduction by 2050. IAG is committed to "reduce its emissions" as a key focus in IAG's Climate Action Plan and Scorecard.	In the current financial year IAG reduced Scope 1 and 2 greenhouse gas emissions to 21,278 tonnes of CO_2 equivalent, achieving its current financial year science-based emission reduction target. While a reduction in emissions from operational energy and transport-related activities can be attributed to COVID-19 restrictions, IAG's activities in consolidation of its property portfolio, transitioning key offices to activity-based working, implementation of energy efficiency activities and the increasing fuel efficiency of fleet vehicles continued to drive down Scope 1 and 2 emissions. In the next financial year IAG sees further opportunity to reduce its Scope 2 emissions in Australia through a phased approach to procure more electricity from renewable energy sources.
IAG's underwriting portfolio Climate Action Plan: rethink risk	IAG will cease underwriting entities mainly in the business of extracting fossil fuels and power generation from fossil fuels by 2023. IAG's key parameters for defining this exposure include: ■ fossil fuel extraction, including the mining of any hydrocarbon fuels, where extraction makes up over 30% of all the entity's activities; and ■ power generation using fossil fuels, where thermal coal makes up over 30% of the electricity generated. Excluding: ■ small and medium enterprises with turnover less than $100 million, where the primary industry classification of the business is not related to any mining or power generation but may have greater than 30% of turnover through engagement in these industries; and ■ legacy portfolios in run-off for businesses that IAG has divested, including accident and health insurance, surety bonds and trade credit insurance where the liability for future claims against some of the policies will exist until expiry of the policy.	As at 30 June 2020, the current GWP written relating to all fossil fuel mining, and fossil fuel power generation, is less than $1 million which equates to less than 0.005% of the total GWP written by the Group in the current financial year.

METRIC	TARGET	PROGRESS
IAG's investment portfolio(1) Climate Action Plan: invest responsibly	As per the IAG Climate Action Plan focus area of "invest responsibly", IAG is implementing the following investment activities to shift investments to reduce exposure to climate-related risks and support climate action: ■ continue to implement climate-related risk management measures through portfolio management as part of broader ESG risk management; ■ continue to invest in reputable green bonds; ■ leverage investments to support climate-resilient infrastructure and emission reduction; and ■ measure ESG and carbon risk exposures in the portfolio.	IAG's Capital Markets team measures the carbon intensity of investments of its Australian and international listed equities. Through a shift in investments to companies that have a lower exposure to climate-related risks or a strategy to manage these risks, IAG has achieved a reduction in the normalised carbon footprint of its equity portfolio from 218.7 tonnes of CO_2 emissions per million USD invested in 30 June 2017 to 81.0 tonnes of CO_2 emissions per million USD invested as at 30 June 2020. IAG's Capital Markets team also monitors IAG's investment portfolio exposure to "higher risk companies" as identified using MSCI's Low Carbon Reduction criteria. This identifies companies with the largest contributions to climate change as: ■ largest owners of fossil fuel reserves (more than 1% of remaining global carbon budget); ■ those with the largest carbon footprint (carbon footprint greater than 0.33% of the annual world carbon emissions); and ■ those with the highest carbon intensity (carbon intensity that exceeds 3,000 tonnes of carbon dioxide per million USD invested). IAG has reduced its exposure to higher risk companies through its approach to invest responsibly, with overall portfolio shift from 0.43% in 30 June 2017 to 0.01% in 30 June 2020.

(1) Although IAG's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

More information on IAG's performance against its metrics and targets can be found in the full Climate-related disclosure 2020 which can be found in the Safer communities section of IAG's website (www.iag.com.au).

CORPORATE GOVERNANCE

IAG believes good governance is essential to delivering its purpose and strategy, including delivering world-leading customer experiences. At IAG, good governance is the culmination of a number of elements, including ethics, culture, leadership (including Board and senior management), and policies and procedures (including remuneration and risk management frameworks).

Aiming for the highest standards across all elements of corporate governance enables IAG to focus more effectively on delivering superior customer outcomes and supporting communities.

During the year, IAG strengthened its approach to governance and culture, responding to the changing regulatory environment. For the financial year ended 30 June 2020, IAG complied with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations (3rd edition). Details of this compliance are set out in IAG's 2020 Corporate Governance Statement and in Appendix 4G. This Corporate Governance Statement is current as at 7 August 2020 and has been approved by the Board. While IAG reported against the 3rd edition, many practices align with the 4th Edition of the Principles and Recommendations which come into force for financial years commencing on or after 1 January 2020. IAG expects to fully comply with the 4th edition by then.

IAG's 2020 Corporate Governance Statement is available at www.iag.com.au/about-us/corporate-governance, along with the policies and procedures that guide all employees' behaviour.

OUTLOOK

There is considerable uncertainty attached to IAG's financial outlook for the 2021 financial year, stemming from specific ongoing business impacts associated with the COVID-19 pandemic and from broader economic repercussions.

As a result, IAG has determined not to provide guidance for the 2021 financial year. This decision will be reviewed periodically.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company and the dividend policy employed by the Group are set out in Note 4.4.

Cash earnings are used for the purposes of targeted return on equity (ROE) and dividend payout policy and are defined as:

- net profit after tax attributable to shareholders of the Parent;
- plus amortisation and impairment of acquired identifiable intangibles; and
- excluding any unusual items (non-recurring in nature).

CASH EARNINGS	**2020 $m**	2019 $m
Net profit after tax	**435**	1,076
Acquired intangible amortisation and impairment (post-tax)	**30**	57
	465	1,133
Non-recurring items:		
Corporate expenses		
– Gain on sale of SBI General	**(309)**	-
– Customer refund provision	**246**	-
– Other	**2**	4
Tax effect on corporate expenses(1)	**(94)**	(1)
Gain on sale of Thailand	**-**	(208)
Loss of diversification benefit on sale of Thailand	**-**	3
Non-controlling interest in corporate expenses	**(31)**	-
Cash earnings(2)	**279**	931
Interim dividend	**231**	277
Final dividend	**-**	462
Dividend payable	**231**	739
Cash payout ratio(2)	**82.8%**	79.4%

(1) Includes Australian income tax effects in relation to the corporate expense items listed above, principally income tax benefits on the recognition of the customer refund provision and hedging costs incurred in respect of the SBI General disposal.

(2) Cash earnings and cash payout ratio represent non-IFRS financial information.

IAG's dividend policy is to pay out 60-80% of cash earnings in any full financial year. Based on cash earnings of $279 million, the interim dividend of 10 cents per share paid on 25 March 2020 represents over 80% of full year cash earnings. As a result, the Board has determined not to pay a final dividend for the 2020 financial year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the following changes became effective:

- On 16 December 2019, IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of the Company redeemed all outstanding reset exchangeable securities at their face value of $550 million.
- On 30 March 2020, IAG announced the completion of the disposal of its 26% interest in its joint venture with the State Bank of India, SBI General Insurance Company Limited, following completion of all the requisite regulatory processes and approvals.
- On 8 April 2020, the Chairman announced that IAG Managing Director and Chief Executive Officer, Peter Harmer, had advised the Board of his intention to retire by the end of 2020. A flexible nine-month period of transition has been agreed with Mr Harmer to ensure a smooth changeover. The Board has appointed IAG Chief Financial Officer (CFO) Nicholas Hawkins as Deputy CEO with accountability for the management and performance of IAG's day-to-day operations during the transition period. Peter Harmer will remain responsible for the overall strategic direction and performance of the Group during the transition period and will directly lead the company's response to the COVID-19 emergency. Michelle McPherson, CFO Australia, has been appointed acting Group CFO.

EVENTS SUBSEQUENT TO REPORTING DATE

Details of matters subsequent to the end of the financial year are set out below and in Note 7.2 within the financial statements. These include:

- On 24 July 2020, IAG provided an update on its preliminary results for the year ended 30 June 2020. This announcement confirmed that the Group was expecting gross written premium (GWP) growth of around 1%, consistent with the 'low single digit' guidance maintained throughout the 2020 financial year and an insurance margin of approximately 10% (on a management reported basis), with the shortfall against prior guidance of 12.5-14.5% largely driven by adverse natural perils, prior period reserving and credit spread factors. These financial statements are consistent with the preliminary financial results reported.
- On 7 August 2020, the Board determined not to pay a final dividend.

In a COVID-19 context, IAG notes the recent developments in Victoria, including the declaration of a State of Disaster with effect from 2 August 2020, where the related business effects remain highly uncertain.

NON-AUDIT SERVICES

During the financial year, KPMG performed certain other services for IAG in addition to its statutory duties.

The Directors have considered the non-audit services provided during the financial year by KPMG and, in accordance with written advice provided by resolution of the Audit Committee, are satisfied that the provision of those non-audit services by IAG's auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit assignments were approved in accordance with the process set out in the IAG framework for engaging auditors for non-audit services; and
- the non-audit services provided did not undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants* of the Chartered Accountants Australia and New Zealand and CPA Australia, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The level of fees for total non-audit services amounted to approximately $1,632,000 (refer to Note 8.3 for further details of costs incurred on individual non-audit assignments).

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

The lead auditor's independence declaration is set out on page 47 and forms part of the Directors' Report for the year ended 30 June 2020.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company's constitution contains an indemnity in favour of every person who is or has been:

- a Director of the Company or a subsidiary of the Company; or
- a Secretary of the Company or of a subsidiary of the Company; or
- a person making or participating in making decisions that affect the whole or a substantial part of the business of the Company or of a subsidiary of the Company; or
- a person having the capacity to affect significantly the financial standing of the Company or of a subsidiary of the Company.

The indemnity applies to liabilities incurred by the person in the relevant capacity (except a liability for legal costs). That indemnity also applies to legal costs incurred in defending or resisting certain legal proceedings. The indemnity does not apply where the Company is forbidden by statute or, if given, would be made void by statute.

In addition, the Company has granted deeds of indemnity to certain current and former Directors and Secretaries and members of senior management of the Company and its subsidiaries and associated companies. Under these deeds, the Company:

- indemnifies, to the maximum extent permitted by law, the former or current Directors or Secretaries or members of senior management against liabilities incurred by the person in the relevant capacity. The indemnity does not apply where the liability is owed to the Company or any of its subsidiaries or associated companies, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud; and
- is also required to maintain and pay the premiums on a contract of insurance covering the current or former Directors or members of senior management against liabilities incurred in respect of the relevant office except as precluded by law. The insurance must be maintained until the seventh anniversary after the date when the relevant person ceases to hold office. Disclosure of the insurance premiums and the nature of liabilities covered by such insurance is prohibited by the relevant contract of insurance.

REMUNERATION REPORT

LETTER FROM THE CHAIRMAN OF THE PEOPLE AND REMUNERATION COMMITTEE

Dear Shareholder,

The 2020 financial year has seen unprecedented economic and environmental challenges across Australia and New Zealand: bushfires of exceptional ferocity, floods and major hailstorms, all followed by the global COVID-19 pandemic.

Throughout the year our employees have worked tirelessly to meet these challenges, to serve customers, protect colleagues and preserve shareholder returns.

Despite these efforts however, shareholder returns for the 2020 financial year have declined materially.

Our current financial year cash earnings result of $279 million is 70% lower than the prior financial year, primarily due to a combination of higher-than-anticipated natural perils (which had a negative impact on the current financial year cash earnings of around $195 million), and investment income losses as a result of COVID-19-related financial market volatility (contributing more than $315 million to our cash earnings shortfall). In addition, the remediation of longstanding risk matters has also had a financial impact. The 2020 financial year cash earnings result has meant that, in accordance with our 60-80% of cash earnings dividend policy, there will be no final 2020 financial year dividend for our shareholders.

Remuneration outcomes reflect our business results and risk performance
In response to these results, and considering the current economic circumstances and uncertainty, the Board has decided the following remuneration outcomes for Executives and employees:

Fixed pay
- no increases to the 2021 financial year fixed pay for senior management including Executives.
- no increase to the 2021 financial year fees for Directors.
- a flat 1% increase for eligible employees below the level of Executive Manager.

Short-term incentives (STI)
- no STI payments will be made for the 2020 financial year.

Long-term incentives (LTI)
- The 2017/2018 LTI awards with the ROE performance measure reached the end of their three-year performance period on 30 June 2020. Having regard to the Group performance over the period, the Board has determined the award will vest at 82%. This outcome will be included in detail in next year's Remuneration Report. The 2016/2017 LTI awards which vested at 100% on 12 August 2019 are disclosed in detail in this Report.
- During the 2020 financial year, the four-year performance period for the relative total shareholder return (TSR) portion of the 2015/2016 LTI award concluded on 30 September 2019. IAG's TSR was ranked at the 75th percentile of its peer group resulting in full vesting of this award on 15 October 2019. The TSR component of the 2016/2017 LTI will reach the end of its performance period on 30 September 2020, and has not yet been finally considered by the Board. The vesting results for this tranche will be disclosed in next year's Remuneration Report.

In addition, the Board made a number of downward risk-related adjustments to deferred awards of senior leaders in relation to risk failures identified and assessed during the year. Adjustments were made in respect of current and former Executives, to a total of approximately $2.7 million. Several adjustments below the Executive level were also made.

In taking these decisions, the Board has been mindful that returns to shareholders for the 2020 financial year have been well below what has been achieved in recent years. At the same time, the Board wants to acknowledge the considerable endeavours of employees across the Group, and to thank them as they have sought to provide high quality, uninterrupted service to our customers through difficult times and events.

Being guided by our purpose in the 2021 financial year and beyond
COVID-19 continues to have a severe impact on many of our customers and on the community more widely. Many people are facing difficult circumstances. We will continue to be guided by our purpose as we support our customers and employees in these challenging times.

Our purpose will also continue to guide the decisions we make, including those that relate to Executive pay. In determining Executive pay outcomes, we will still assess both financial and non-financial business performance. Our comprehensive risk assessment process will help ensure we deliver results in a sustainable way for all IAG stakeholders. We will continue to monitor the alignment of remuneration outcomes with business performance, the economic environment and the experiences of our stakeholders and we will exercise discretion where required.

While the timelines for some proposed regulatory changes have been extended due to the impact of COVID-19, IAG continues to proactively mature its remuneration governance practices. In doing this, we are seeking to ensure our practices continue to operate effectively and will readily adapt to the future regulatory context of both the Financial Accountability Regime (FAR) and APRA Prudential Standard CPS 511 Remuneration (CPS 511).

As always, we look forward to receiving feedback on any aspect of this report and our remuneration arrangements, and we appreciate your ongoing support.

Jon Nicholson

Chairman, People and Remuneration Committee

CONTENTS		PAGE

A. KEY MANAGEMENT PERSONNEL COVERED IN THIS REPORT

This report sets out the remuneration details for IAG's key management personnel (KMP).

Following the announcement of Peter Harmer's intention to retire by the end of the 2020 calendar year, and the appointment of Nicholas Hawkins as Deputy Chief Executive Officer (CEO), Executive reporting lines have changed. As a result, the Board has determined that Executive KMP (Executive Team) will now comprise the Managing Director and Chief Executive Officer (Group CEO), Deputy CEO and direct reports to those two roles who:

- manage a business unit; or
- have accountability for the risk or financial control of the organisation; or
- have accountability to deliver a strategic priority.

The full list of KMP for the year ended 30 June 2020 is presented below.

NAME	POSITION	TERM AS KMP[1]
EXECUTIVES		
Peter Harmer	Managing Director and Chief Executive Officer[2]	Full year
Julie Batch	Chief Strategy and Innovation Officer[3]	Full year
Nicholas Hawkins	Deputy Chief Executive Officer[4]	Full year
Michelle McPherson	Acting Chief Financial Officer[5]	From 8 April 2020
Mark Milliner	Chief Executive Officer, Australia	Full year
Craig Olsen	Chief Executive, New Zealand	Full year
Christine Stasi	Group Executive, People, Performance and Reputation	From 4 November 2019
David Watts	Chief Risk Officer	Full year
EXECUTIVES WHO CEASED AS KMP		
No Executives ceased as KMP during the 2020 financial year.		
NON-EXECUTIVE DIRECTORS		
Elizabeth Bryan	Chairman, Independent Non-Executive Director	Full year
Simon Allen	Independent Non-Executive Director	From 12 November 2019
Duncan Boyle	Independent Non-Executive Director	Full year
Sheila McGregor	Independent Non-Executive Director	Full year
Jon Nicholson	Independent Non-Executive Director	Full year
Helen Nugent	Independent Non-Executive Director	Full year
Tom Pockett	Independent Non-Executive Director	Full year
George Savvides	Independent Non-Executive Director	Full year
Michelle Tredenick	Independent Non-Executive Director	Full year
NON-EXECUTIVE DIRECTOR WHO CEASED AS KMP		
Hugh Fletcher	Independent Non-Executive Director	Ceased 25 October 2019

(1) If an individual did not serve as KMP for the full financial year, all remuneration is disclosed from the date the individual was appointed as KMP to the date they ceased as KMP.
(2) On 8 April 2020, IAG announced that Chief Executive Officer Peter Harmer had advised the Board of his intention to retire. A flexible nine-month period of transition has been agreed, and it is expected that Mr Harmer will cease employment with IAG by the end of the 2020 calendar year.
(3) Effective 24 February 2020, Julie Batch was appointed to the role of Chief Strategy and Innovation Officer. Prior to this appointment Ms Batch was Chief Customer Officer.
(4) On 8 April 2020, Nicholas Hawkins was appointed to the role of Deputy Chief Executive Officer. Prior to this appointment Mr Hawkins was the Chief Financial Officer.
(5) On 8 April 2020, Michelle McPherson was appointed to the role of Acting Chief Financial Officer. Prior to this appointment Ms McPherson joined IAG as Chief Financial Officer, Australia on 6 April 2020.

B. EXECUTIVE REMUNERATION STRUCTURE

I. Remuneration guiding principles

There are six guiding principles that underpin IAG's approach to remuneration. The following chart illustrates these guiding principles.

REMUNERATION PRINCIPLES

There are six guiding principles that underpin IAG's approach to remuneration. Remuneration at IAG should:

Support IAG's purpose by focusing employees' behaviour and performance on customers and the community, the desired culture within IAG and value for our shareholders.

Support attraction and retention of talent with the capabilities and skills needed to drive business performance and deliver IAG's strategy.

Promote accountability and encourage behaviours that support effective risk management and IAG's long-term financial soundness.

Reduce non-financial risk including the risks of misconduct, or regulatory and compliance breaches.

Be simple to understand, delivering pay parity and outcomes that are fair and equitable.

Provide flexibility for different business requirements now and in the future.

II. Summary of remuneration components

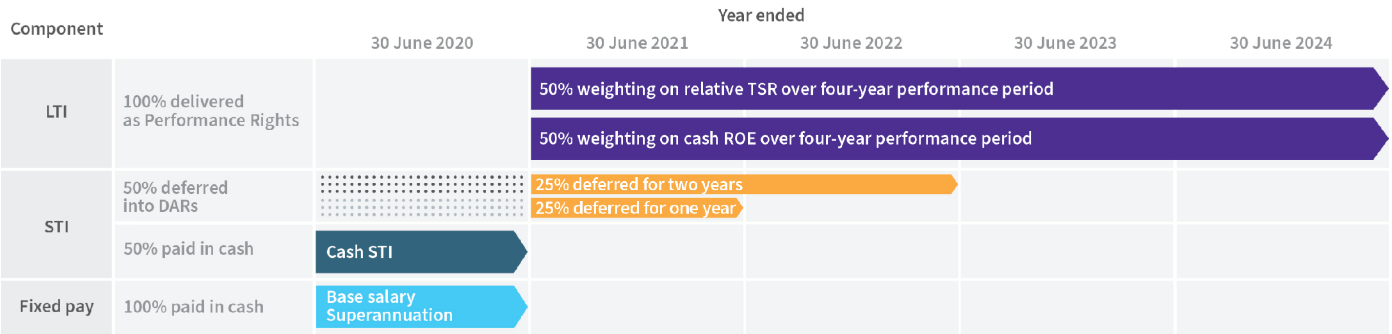
The table below describes the structure and purpose of Executive remuneration components for the year ended 30 June 2020.

TABLE 1 – REMUNERATION COMPONENTS

COMPONENT	STRUCTURE	PURPOSE
Fixed pay	Fixed pay comprises base salary and superannuation, determined by reference to the experience and skills an individual brings to the role, internal relativities between Executives and market pay levels for similar external roles. Details relating to fixed pay are presented in Table 2.	Remunerate Executives for performing their ongoing work.
Short-term incentives (STI)	STI is provided on an annual basis, subject to the achievement of short-term goals and an assessment of risk management effectiveness. Half of the STI is delivered in cash and half is deferred for a period of up to two years, typically in the form of Deferred Award Rights (DARs). Details relating to the STI plan are presented in Table 3.	Reward annual performance across a range of financial and non-financial measures to support the delivery of the IAG strategy. Deferral of STI encourages retention of senior management and reinforces the link between shareholder value creation and Executive reward.
Long-term incentives (LTI)	LTI grants are determined annually by the Board. The grants are in the form of Executive Performance Rights (EPRs) that have performance hurdles over a four-year performance period, which align to IAG's strategic financial targets. Details relating to the LTI plan are presented in Table 4.	Create a direct link between Executive reward and the return experienced by shareholders through two hurdles: ■ cash ROE evidences IAG's return on total shareholders' equity. Cash earnings performance is a key component of the ROE calculation and directly influences the dividend paid to shareholders; and ■ relative TSR reflects the value created for shareholders through dividends and the movement in the share price, measured against the top 50 industrial companies in the S&P/ASX 100 Index.

Remuneration received by Executives is based on IAG's performance over a number of time periods, as illustrated in the following graph. The timeframe of potential payments to Executives is staggered progressively from one to four years to encourage decision-making which supports long-term, sustainable performance.

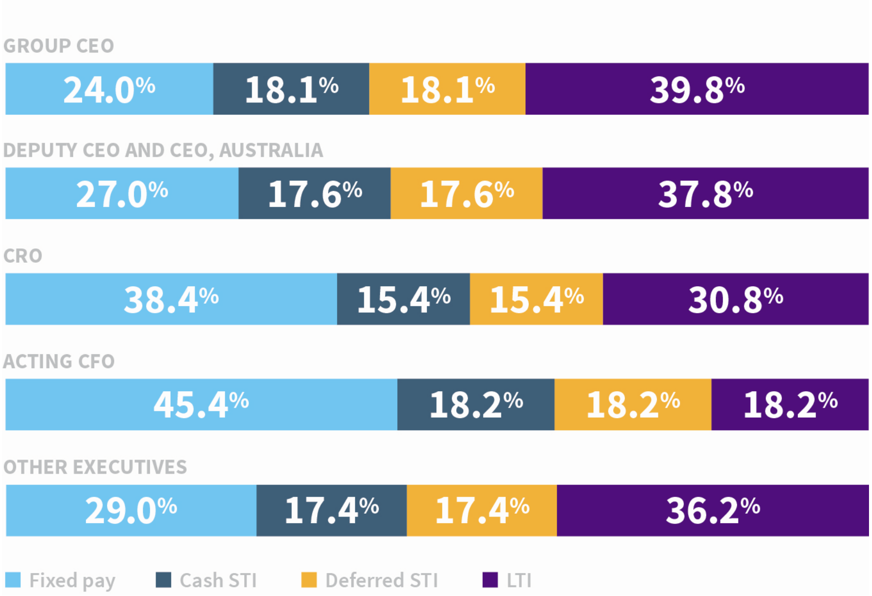
SUMMARY OF REMUNERATION COMPONENTS AND DELIVERY TIMELINE



III. Remuneration mix

The following graph illustrates the mix of remuneration components provided to Executives (based on maximum potential earnings, as at 30 June 2020).

REMUNERATION MIX BASED ON MAXIMUM INCENTIVE OPPORTUNITY



Each remuneration component is described in more detail below.

IV. Fixed pay

TABLE 2 – FIXED PAY

Overview	Fixed pay is set with reference to the median of the external market for comparable roles, considering the size and complexity of the role, and the skills and experience of the individual. For Australian-based Executives, the external market consists of financial services companies in the S&P/ASX 50 Index and companies that are of similar size to IAG. Local market peer groups are considered for overseas-based Executives. Increases to fixed pay are generally only provided when pay is below market levels, or there has been a material change in the responsibilities of the Executive. During the 2020 financial year, Julie Batch's fixed pay increased from $735,000 to $825,000 (following her appointment as Chief Strategy and Innovation Officer). No other Executives received increases to fixed pay during the year.

V. Short-term incentive

The table below summarises key terms of the STI plan and deferred STI.

TABLE 3 – STI AND DEFERRED STI

STI	
Overview	STI is the at-risk remuneration component designed to motivate and reward Executives for superior performance in the financial year.
Compliance gateway	To be eligible for an STI, Executives are required to satisfactorily complete compliance training courses which are designed to ensure participants know how to protect IAG's customers and operate in a fair and transparent manner compliant with appropriate regulations.
Behavioural gateway	To be eligible for an STI, Executives are required to demonstrate appropriate behaviours in the way they achieve performance outcomes. The Group CEO's behaviour is assessed by the Board. Executives' behaviours are assessed by the Group CEO, who recommends eligibility to the Board.
STI opportunity	For the 2020 performance year, the maximum value of STI that could be granted is set out in Table 6.
Funding	The Board considers the Group's cash earnings performance when determining overall STI funding for the year. In view of the 2020 financial year cash earnings, the Board determined not to make an STI allocation for the Group CEO and Executives.
Performance measures	Executive performance is measured against the Group Balanced Scorecard and individual goals using both financial and non-financial measures (for further details, refer to Table 5).
Performance evaluation	The PARC reviews the Group CEO's performance based on the Group Balanced Scorecard outcomes (as described in Table 5), and the effectiveness of risk management during the year, and then recommends an STI award for approval by the Board. The Group CEO reviews the performance of Executives based on the Group Balanced Scorecard outcomes and achievement against individual goals. The Group CEO then recommends an STI award for consideration by the PARC, which then recommends an STI award for approval by the Board. To ensure incentives provided to the Group CEO and Executives are appropriate, the Board assesses the risk management performance of IAG (including any prior year events that have come to light in the current year) prior to determining final incentive outcomes. For all individuals, the Board may apply discretion in determining the STI outcomes to ensure they appropriately reflect performance.
Instrument	Half the STI award is delivered in cash in September following the financial year end, and half the STI award is deferred for a period of up to two years based on continued service. The deferred component is typically paid in the form of DARs with no dividend entitlement until the rights vest and are exercised.

DEFERRED STI	
Overview of DARs	DARs are rights over the Company's ordinary shares. DARs are granted at no cost to the Executive and no dividend is paid for any unvested, or vested and unexercised DARs. In 2018, the Board made an exception to the dividend policy for holders of DARs that were due to vest after the record date for final dividends during 2018 and 2019. This exception was made following IAG's decision to bring forward the date that annual results are announced to the market. Due to this change, the record date for final dividends was also brought forward to avoid a delay in distributing profits to shareholders. Consequently, holders of DARs that vested in September 2018 and some DARs that vested in September 2019 were no longer entitled to receive the final dividend, as the vesting dates fell shortly after the new, earlier dividend record dates. In recognition of this adverse consequence, the Board determined to make a cash payment to employees holding DARs at the September 2018 and September 2019 vesting dates, equivalent in value to the dividends they would otherwise have received if the record date had not moved. The payments relating to the September 2019 vesting date are disclosed in this Remuneration Report. No further payments will be made in relation to this matter.
Number of DARs issued	The number of DARs issued is calculated based on the volume weighted average share price (VWAP) of the Company's ordinary shares over the 30 days up to and including 30 June before the grant date.

Exercise and vesting of DARs	Executives who participate in the STI plan become eligible to receive one ordinary share of the Company per DAR by paying an exercise price of $1 per tranche of DARs exercised. Vesting of DARs is subject to an Executive's continued employment with IAG at the vesting date or meeting the conditions to retain unvested DARs upon cessation, as outlined in the 'Malus and forfeiture conditions' section below.
Hedging of DARs	Executives may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG securities.
Malus and forfeiture conditions	The Board retains the discretion to adjust downwards the unvested portion of any deferred STI awards, including to zero (refer to Section D for more information on the adjustment framework). Deferred STI awards will generally be forfeited if the Executive resigns before the vesting date, except in special circumstances (including redundancy, retirement, death or total and permanent disability). When an Executive ceases employment in special circumstances, any unvested rights may be retained on cessation of employment subject to the existing terms and conditions of the award including the vesting date, subject to Board discretion. In cases where the Executive acts fraudulently or dishonestly or is in breach of his or her obligations to IAG, the unvested rights will lapse.

VI. Long-term incentive

The table below summarises key terms of the LTI plan.

TABLE 4 – LTI

Overview	LTI grants are determined annually by the Board. The grants are in the form of EPRs that have performance hurdles aligned to IAG's strategic financial targets. Rights granted during the year will not vest and have no value to the Executive unless the performance hurdles are achieved.
LTI opportunity	For the 2020 performance year, the maximum value of LTI that could be granted to the Group CEO and each Executive is as below: ■ 165% of fixed pay for the Group CEO; ■ 140% of fixed pay for the Deputy CEO and the CEO, Australia; ■ 80% of fixed pay for the CRO; ■ 40% of fixed pay for the Acting CFO; and ■ 125% of fixed pay for all other Executive Team members.
Instrument	If performance hurdles are achieved over the four-year performance period, rights can be settled with either the Company's ordinary shares or an equivalent cash payment. The Board may choose to exercise discretion to settle rights on vesting in cash in circumstances where it is restrictive to settle rights with shares, including in jurisdictions where legislative requirements prohibit share ownership in a foreign entity. Where rights are settled in cash, the value of the cash payment is determined based on the VWAP for the five trading days up to and including the vesting date.
Allocation methodology	The number of rights issued is calculated based on the VWAP over the 30 days up to and including 30 June before the grant date.
Dividend entitlements	No dividend is paid or payable for any unvested, or vested and unexercised, rights.
Performance hurdles	The cash ROE performance hurdle (50% weighting) and relative TSR performance hurdle (50% weighting) are measured over four years.

Performance hurdle – cash ROE	Description	Cash ROE is measured relative to IAG's weighted average cost of capital (WACC). For LTI awards granted prior to November 2018, there were six half-year periods measured. For LTI awards granted from November 2018 onwards, there are eight half-year periods. In 2019, a review of the cash ROE hurdle was completed, considering factors such as IAG's business strategy, market practice, changes to IAG's capital base and historic and projected ROE performance. Following this review, the vesting range was increased from 1.2-1.6 times WACC to 1.4-1.9 times WACC for the November 2019 LTI grant onwards. The Board can reduce the cash ROE vesting outcomes in order to ensure that reward outcomes appropriately reflect performance. For awards vesting from 30 June 2020 onwards, the Board will consider the impact of changes in the cost of capital over the performance period. In the event that there have been material changes in the cost of capital, the Board can consider the extent to which this may have influenced vesting outcomes to ensure that reward outcomes appropriately reflect performance.
	Definition	ROE is calculated as cash earnings divided by the average total shareholders' equity. Cash earnings is defined as net profit after tax attributable to owners of the Company plus amortisation and impairment of acquired identifiable intangible assets and adjusted for unusual items after tax (non-recurring in nature). In determining vesting outcomes, the Board considers the overall quality of earnings over the performance period, including differences between the statutory profit and cash earnings, and movements in the cost of capital.
	Testing	Cash ROE is calculated by dividing the cash earnings of IAG by the average total shareholders' equity for a given period. This cash ROE figure is then expressed as a multiple of IAG's WACC. The cash ROE vesting outcome is based on the average cash ROE across the performance period (the six or eight half-year periods) divided by the average WACC over the same timeframe.
	Vesting (for grants November 2019 onwards)	0% vesting for cash ROE less than 1.4 times WACC 20% vesting for cash ROE at 1.4 times WACC 100% vesting for cash ROE at or above 1.9 times WACC Straight-line vesting between 1.4 times WACC and 1.9 times WACC
Performance hurdle – relative TSR	Description	Relative TSR is measured against the top 50 industrial companies within the S&P/ASX 100 Index. Industrial companies are defined by Standard & Poor's as being all companies excluding those in the Energy sector (GICS Tier 1) and the Metals & Mining industry (GICS Tier 3). Companies which are no longer part of the index at the end of the performance period (e.g. due to acquisition or delisting) may be removed from the peer group.
	Definition	TSR measures the return a shareholder would obtain from holding a company's share over a period, taking into account factors such as changes in the market value of shares and dividends paid over that period. The relative measure compares IAG's TSR against that of companies in the peer group.
	Testing	Relative TSR performance for allocations made prior to November 2018 is measured between 30 September of the base year and 30 September of the test year. Relative TSR performance for allocations made from November 2018 onwards is measured between 30 June of the base year and 30 June of the test year. The opening and closing share price for the TSR calculation for IAG and peer group companies uses a three-month VWAP.
	Vesting (for grants November 2019 onwards)	0% vesting for relative TSR less than the 50th percentile of the peer group 50% vesting for relative TSR at the 50th percentile of the peer group 100% vesting for relative TSR at or above the 75th percentile of the peer group Straight-line vesting between the 50th and 75th percentile of the peer group

Retesting	There are no opportunities to retest these performance hurdles.
Hedging of EPRs	Executives may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG securities.
Malus and forfeiture conditions	The Board retains the discretion to adjust downwards the unvested portion of any LTI awards, including to zero (refer to Section D for more information on the adjustment framework). Unvested rights will generally lapse if an Executive resigns before the performance hurdles are tested, except in special circumstances. When an Executive ceases employment in special circumstances, any unvested rights may be retained on cessation of employment up to the point they vest, subject to Board discretion. Special circumstances include: redundancy, retirement, death or total and permanent disability. Any rights retained under these circumstances will remain subject to the original performance conditions. In cases where the Executive acts fraudulently or dishonestly or is in breach of his or her obligations to IAG, the unvested rights will lapse.

C. LINKING IAG'S PERFORMANCE AND REWARD

I. Linking IAG's short-term performance and short-term reward

IAG has three broad strategic priorities: ‘customer’, ‘simplification’ and ‘agility’. The focus of each strategic priority is summarised on page 13 of the annual report.

The tables below summarise IAG’s Group Balanced Scorecard objectives and outcomes for the year ended 30 June 2020. The objectives were agreed with the Board at the beginning of the financial year and were designed to focus Executives on delivering superior performance outcomes against the strategic priorities. Each Executive’s performance is assessed based on their contribution to the objectives outlined below, as well as their individual performance.

TABLE 5 – GROUP BALANCED SCORECARD OBJECTIVES AND RESULTS FOR THE YEAR ENDED 30 JUNE 2020

OBJECTIVE AND WEIGHTING	RATIONALE	MEASURE AND OUTCOME	COMMENT
FINANCIAL MEASURES (55% OF SCORECARD)			
Profitability (30%)	IAG uses underlying profit as the key profitability measure, as it presents a holistic view of the absolute earnings power of IAG’s core insurance-related business. It provides a view of the underlying profitability of the underwriting, fee-based and associate businesses and is an important measure of how IAG generates value for shareholders.	Not met The Group’s underlying profit was slightly below the expectations set at the commencement of the financial year.	The outcome was largely driven by the decline in the underlying insurance margin, particularly during the second half of the financial year. This reflected the combined impact of lower investment returns, higher reinsurance costs (associated with the unusually high level of natural perils activity) and deterioration in the performance of some Australian commercial long-tail portfolios. COVID-19 had a broadly neutral overall impact on this measure.
Controllable operating expense (15%)	IAG’s continued focus on optimisation of its operating model and related cost-out initiatives improves the efficiency with which IAG deploys its resources.	Not met The Group’s controllable operating cost base for the 2020 financial year was slightly above target.	During the first half of the financial year, the Group delivered against the controllable operating expense target under its optimisation program. However, the headline metric for the 2020 financial year was impacted by the incurrence of incremental costs associated with IAG’s COVID-19 response including those related to the recently announced retail branch closures in New Zealand.

OBJECTIVE AND WEIGHTING	RATIONALE	MEASURE AND OUTCOME	COMMENT
Growth (10%)	IAG continues to expand its product and service offerings to its markets, measured through gross written premium (GWP) growth, creating value for its shareholders, customers and partners.	Not met IAG's underlying GWP growth from continuing operations was 1.8% which did not meet the target of 3.0%.	The underlying GWP growth metric adjusts the equivalent reported measure for portfolio divestments and foreign currency effects. If this result was adjusted for the estimated adverse impact on new business volumes associated with the onset of COVID-19 it would increase to approximately 2.5%, which would still be below target.
NON-FINANCIAL MEASURES (45% OF SCORECARD)			
Customer advocacy (7.5%)	IAG's strategy is designed to 'put the customer at the centre of everything we do'. IAG considers this essential to driving the ability to grow profitably over the longer term. IAG is focused on designing compelling product and service offerings by developing a deeper understanding of customers' needs and the changing environment, allowing delivery of world-leading customer experiences, including through digital channels. IAG uses Customer Net Promoter Scores to measure the impact of these initiatives for its customers.	Met IAG sets a Customer Net Promoter Score (NPS) target relative to its peers. IAG's NPS for the 2020 financial year was +8 NPS points above the competitive market average, which met the target.	IAG continued to deliver customer advocacy above the level of competitors during the 2020 financial year due to strong brands and continued embedment of its customer advocacy programs.
Customer growth numbers (personal) (7.5%)	Together with customer advocacy IAG also measures customer growth as part of assessing the impact of IAG's ability to design compelling product and service offerings, for personal customers.	Not met IAG's personal customer growth was 0.4%, not meeting the target of 1.8% to 2.2%.	Although retention rate was maintained, IAG did not meet the personal customer growth target, which was based on system growth.
Customer growth numbers (commercial) (5%)	Together with customer advocacy IAG also measures customer growth as part of assessing the impact of IAG's ability to design compelling product and service offerings, for commercial customers.	Not met IAG's commercial customer growth was -3.3%, not meeting the target of between -2.2% to -1.7%.	While the commercial growth target recognised IAG's need for continued focus on improving the underwriting quality of the commercial book, the target was not met.
Employee advocacy (7.5%)	IAG seeks to motivate and engage its employees around its purpose to 'make your world a safer place'. Creating a strong organisational culture helps IAG deliver strong business results. IAG uses the Employee Net Promoter Score (eNPS) to measure its effectiveness in fostering a strong organisational culture.	Met IAG measures employee advocacy using an eNPS. The target was an eNPS score between +31 and +33, and the result was +50.	IAG's employees recommend IAG as a place to work because of supportive leadership, approach to workplace flexibility, employee benefits, work life balance and a positive work environment. The COVID-19 response resulted in an increase in eNPS as employees' advocacy for IAG as a place to work was supplemented by support for the way IAG purposely responded to the pandemic.

OBJECTIVE AND WEIGHTING	RATIONALE	MEASURE AND OUTCOME	COMMENT
Agility (7.5%)	A constructive and agile culture enables IAG to provide great experiences for its employees and customers. IAG tracks three agility indicators to measure progress towards creating an agile organisation. These are leadership effectiveness, connectedness and decision-making effectiveness.	Met IAG's performance improved from the 2019 financial year for all three agility indicators of leadership effectiveness, connectedness, and decision-making. Each exceeded the target range.	IAG's agility indicator scores improved from the 2019 financial year. These indicators help IAG understand how our employees experience leadership and decision-making, and the degree of connection employees feel to the organisation. This improvement from 2019 reflects an ongoing leadership focus on culture as evidenced during IAG's response to COVID-19.
Risk maturity (10%)	Management of risk is integral to IAG delivering on its strategy, to meeting short-term objectives and achieving long-term sustainability. IAG conducts a formal assessment of risk management maturity and risk culture which is reviewed and approved by the Board and Risk Committee on a quarterly basis. Due to the importance of risk management to IAG, it is included as an explicit measure on the scorecard.	Met IAG has continued to build on its risk maturity.	IAG's risk maturity met the target for the current financial year. The Risk Maturity Model will be further strengthened in the 2021 financial year to incorporate additional risk classes including insurance and reinsurance risk.

II. STI outcomes for the year ended 30 June 2020

The following table sets out the STI outcomes for Executives for the year ended 30 June 2020.

TABLE 6 – ACTUAL STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2020

	MAXIMUM STI OPPORTUNITY	ACTUAL STI OUTCOME		CASH STI OUTCOME (50%)	DEFERRED STI OUTCOME (50%)
	(% of fixed pay)	(% of maximum)[1]	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
Peter Harmer	150 %	- %	- %	- %	- %
Julie Batch	120 %	- %	- %	- %	- %
Nicholas Hawkins	130 %	- %	- %	- %	- %
Michelle McPherson	80 %	- %	- %	- %	- %
Mark Milliner	130 %	- %	- %	- %	- %
Craig Olsen	120 %	- %	- %	- %	- %
Christine Stasi	120 %	- %	- %	- %	- %
David Watts	80 %	- %	- %	- %	- %

(1) The proportion of STI foregone is derived by subtracting the actual percentage of maximum received from 100% and was 100% on average for the year ended 30 June 2020 (compared to 40% in 2019).

The average STI for all Executives was 0% of the maximum STI opportunity.

III. Linking IAG's long-term performance and long-term reward

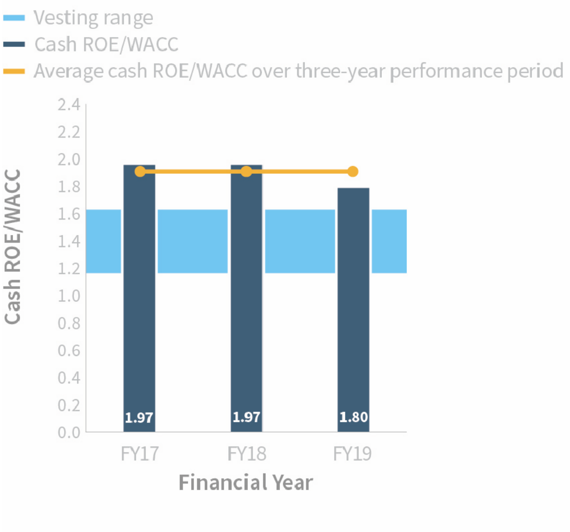
Details of LTI vested during the year are set out below:

Cash ROE – 100% vesting for the 2016/2017 LTI awards

The Board has determined that, for the performance period from 1 July 2017 to 30 June 2020, the average reported cash ROE of 1.51 times WACC will apply. This will equate to an 82% vesting outcome, which will be reflected in next year's Remuneration Report. For the performance period from 1 July 2016 to 30 June 2019, the average reported cash ROE was 1.91 times WACC. In determining the final vesting outcome for this award, the Board considered the overall quality of earnings, including the differences between the statutory profit and cash earnings. Following this review, the Board determined that the award would vest in full.

The following graph illustrates IAG's cash ROE/WACC performance over the past three years.

IAG HISTORICAL CASH ROE OVER WACC FOR THE LTI PLAN

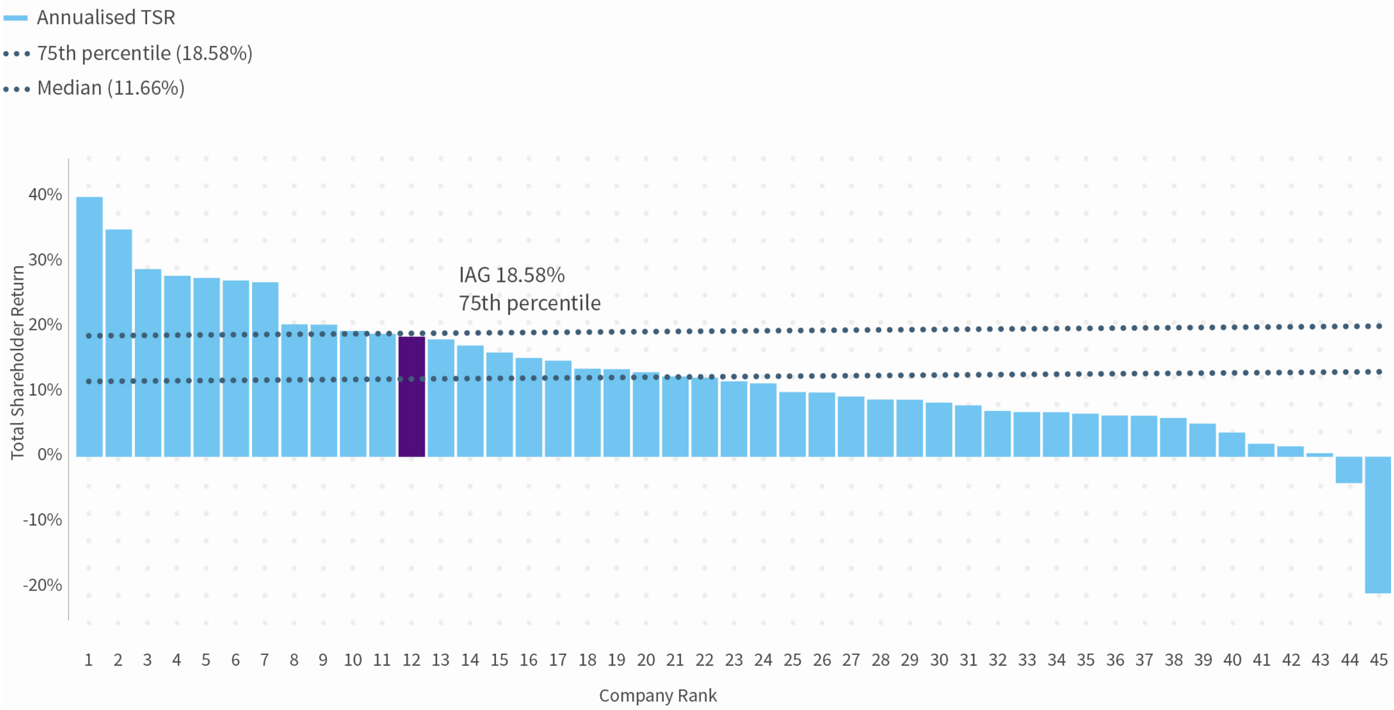


Relative TSR – 100% vesting

On 30 September 2019, the relative TSR portion of the 2015/2016 LTI award was tested. IAG's TSR was ranked at the 75th percentile of the peer group, resulting in a 100% vesting outcome.

The following graph illustrates IAG's relative TSR, on an annualised basis, against the top 50 industrial companies in the S&P/ASX 100 Index for the 2015/2016 LTI award:

IAG'S RELATIVE TSR AGAINST TOP 50 INDUSTRIAL COMPANIES IN S&P/ASX 100



The following table shows the returns IAG delivered to shareholders for the last five financial years for a range of measures.

TABLE 7 – HISTORICAL ANALYSIS OF SHAREHOLDER RETURN

	YEAR ENDED 30 JUNE 2016	YEAR ENDED 30 JUNE 2017	YEAR ENDED 30 JUNE 2018	YEAR ENDED 30 JUNE 2019	**YEAR ENDED 30 JUNE 2020**
Closing share price ($)	5.45	6.78	8.53	8.26	**5.77**
Dividends per ordinary share (cents)	36.00(1)	33.00	34.00	37.50(3)	**10.00**
Basic earnings per share (cents)	25.79	39.03	39.06	46.26	**18.87**
Reported cash ROE (%)	13.0	15.2	15.6	14.4	**4.5**
Three-year average reported cash ROE to WACC	2.00(2)	1.76(2)	1.83(2),(4)	1.91(4),(5)	**1.51**(4),(5),(6)

(1) This includes the 10.00 cents (per ordinary share) 2016 special dividend.

(2) Outcomes reflect IAG's average cash ROE to WACC prior to the Board considering the impact of the software impairments announced to the market on 19 August 2016. The impact of the software impairments was to reduce average cash ROE to WACC by 0.09 times in the three years to 30 June 2016, 0.08 times in the three years to 30 June 2017 and 0.09 times in the three years to 30 June 2018.

(3) This includes the 5.50 cents (per ordinary share) 2019 special dividend paid as part of the capital management initiative announced in August 2018.

(4) Outcomes reflect IAG's average cash ROE to WACC prior to the Board considering the impact of the write-down of Asian asset carrying values reported in the 2018 financial year. The impact of the write-down of Asian asset carrying values would have been to reduce average cash ROE to WACC by 0.03 times in the three years to 30 June 2018, and by the same amount in the three years to 30 June 2019 and in the three years to 30 June 2020.

(5) Outcomes reflect IAG's average cash ROE to WACC prior to the Board considering the impact of the net gain on sale of the Thailand business in the 2019 financial year. The impact of the net gain on sale of the Thailand business would have been to increase average cash ROE to WACC by 0.13 times in the three years to 30 June 2019, and 0.14 times in the three years to 30 June 2020.

(6) Outcomes reflect IAG's average cash ROE to WACC prior to the Board considering the impact of the net gain on sale of the India business and the recognition of the customer refund provisions in the 2020 financial year. The impact of the net gain on sale of SBI General would have been to increase average cash ROE to WACC by 0.23 times in the three years to 30 June 2020, while the impact of the customer refund provisions would have been to reduce the average cash ROE to WACC by 0.10 times in the three years to 30 June 2020.

IV. Actual remuneration received by Executives

The following table details remuneration received by Executives during the financial year, which includes:

- fixed pay and other benefits paid during the financial year;
- the value of cash STI awards earned in the financial year; and
- the value of prior years' deferred STI and LTI awards that vested during the financial year.

For remuneration details provided in accordance with the Accounting Standards, refer to Appendix 1.

TABLE 8 – ACTUAL REMUNERATION RECEIVED IN 2020 AND 2019

	FINANCIAL YEAR	FIXED PAY $000 (1)	OTHER BENEFITS AND LEAVE ACCRUALS $000 (2)	TERMINATION BENEFITS $000 (3)	CASH STI $000 (4)	DEFERRED STI VESTED $000 (5)	LTI VESTED $000 (6)	TOTAL ACTUAL REMUNERATION RECEIVED $000
EXECUTIVES								
Peter Harmer	**2020**	**1,900**	**26**	**-**	**-**	**638**	**3,179**	**5,743**
	2019	1,858	136	-	709	655	2,049	5,407
Julie Batch	**2020**	**767**	**1**	**-**	**-**	**201**	**924**	**1,893**
	2019	728	3	-	269	200	462	1,662
Nicholas Hawkins	**2020**	**1,200**	**6**	**-**	**-**	**374**	**1,907**	**3,487**
	2019	1,200	33	-	480	399	1,480	3,592
Michelle McPherson(7)	**2020**	**184**	**13**	**-**	**-**	**-**	**-**	**197**
Mark Milliner	**2020**	**1,100**	**36**	**-**	**-**	**297**	**1,730**	**3,163**
	2019	1,079	117	-	432	1,306	-	2,934
Craig Olsen(8)	**2020**	**802**	**38**	**-**	**-**	**232**	**957**	**2,029**
	2019	785	62	-	339	202	448	1,836
Christine Stasi(9)	**2020**	**492**	**281**	-	**-**	**-**	**-**	**773**
David Watts	**2020**	**875**	**16**	**-**	**-**	**423**	**-**	**1,314**
	2019	704	32	-	176	-	-	912

(1) Fixed pay includes amounts paid in cash, superannuation contributions plus the portion of IAG's superannuation contribution that is paid as cash instead of being paid into superannuation. Fixed pay also includes salary sacrifice items such as cars and parking as determined in accordance with *AASB 119 Employee Benefits*. Julie Batch received a fixed pay increase following her appointment as Chief Strategy and Innovation Officer.

(2) Further details are provided in Table 13 in Appendix 1.

(3) Payment in lieu of notice, which incorporates statutory notice and severance entitlements.

(4) Cash STI earned within the year ended 30 June and to be paid in the following September (representing 50% of the award made for the financial year).

(5) Deferred STI vesting on 12 August 2019 and 1 September 2019 was valued using the five-day VWAP of $7.82 and $7.97 respectively (1 September 2018: $7.65).

(6) LTI vested was valued using the five-day VWAP at vesting date which was $7.82 for awards vested on 12 August 2019 and $7.72 for awards vested on 15 October 2019 (16 August 2018: $7.98 and 30 September 2018: $7.32).

(7) Michelle McPherson commenced as Acting Chief Financial Officer on 8 April 2020. Her remuneration is presented for the period for which she served as a KMP.

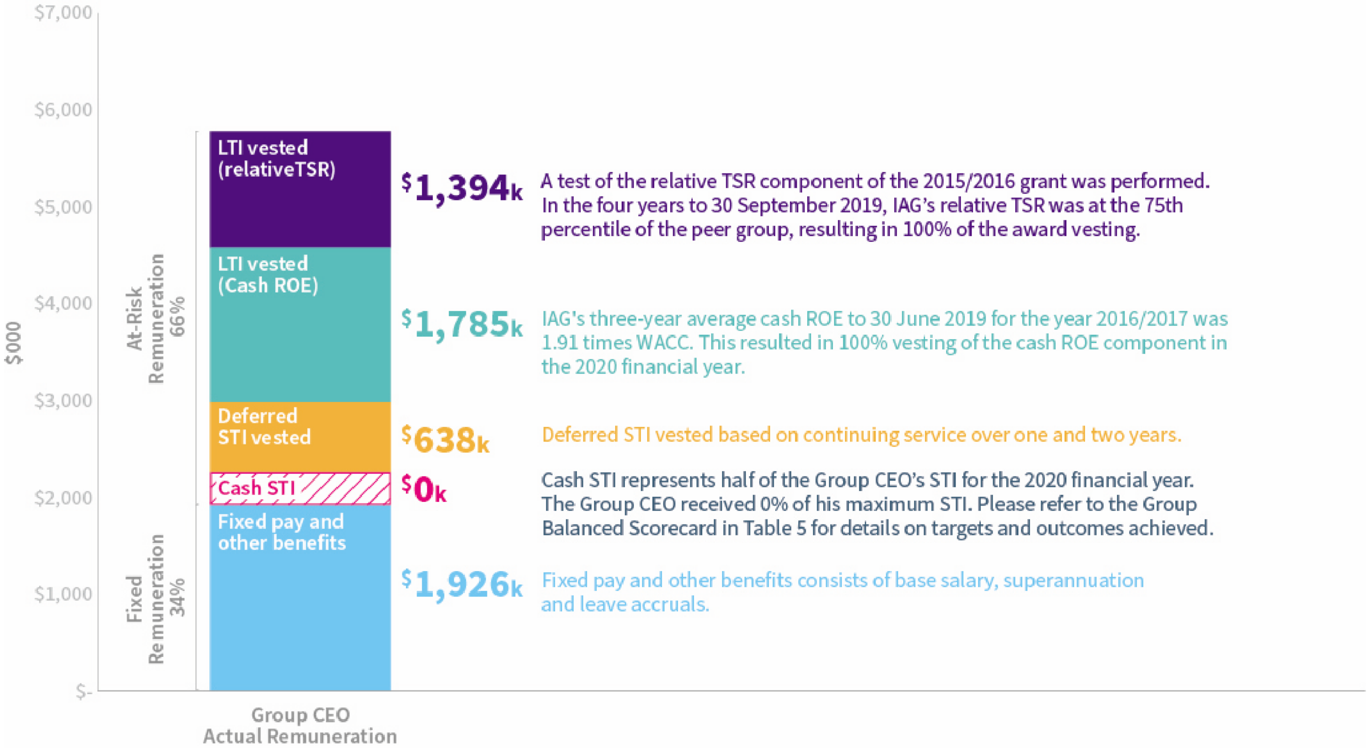
(8) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2020 which was 1 NZD = 0.94825 AUD.

(9) Christine Stasi commenced as Group Executive, People, Performance and Reputation on 4 November 2019. Her remuneration is presented for the period for which she served as a KMP. Ms Stasi received a cash payment in February 2020 as compensation for incentives foregone on leaving her previous employer.

V. Group CEO remuneration

Below are further details on drivers of the actual remuneration received by the Group CEO that are outlined in Table 8. The components of remuneration mix are shown with commentary on how performance has translated into remuneration outcomes.

GROUP CEO FY20 PERFORMANCE AND ACTUAL REMUNERATION OUTCOMES



D. EXECUTIVE REMUNERATION GOVERNANCE

I. IAG's approach to remuneration governance

IAG governs remuneration through the Board and the PARC as illustrated in the following graphic.

BOARD

Ensures the Group remuneration framework is aligned to the short and long-term interests of IAG and its stakeholders.

Considers recommendations made by PARC before making Executive remuneration decisions.

PARC

Ensures the remuneration policies and practices support the delivery of IAG's strategic goals.

ADVISES THE BOARD ON:

- Group remuneration policy and its effectiveness;
- Executive remuneration and contract terms; and
- IAG Non-Executive Director remuneration.

APPROVES:

- equity-based plans;
- target market positioning; and
- compliance with statutory remuneration disclosures.

RISK COMMITTEE, CHIEF RISK OFFICER & EGM GROUP INTERNAL AUDIT

Provide input into remuneration recommendations

EXTERNAL REMUNERATION CONSULTANTS

PARC engages remuneration consultants to provide information that assists the Board in making remuneration decisions

MANAGEMENT

The Group CEO recommends Executive Team remuneration and contract terms to PARC, which then make a recommendation to the Board.

Executives may attend PARC meetings, by invitation, to assist the committee in its deliberations and provide updates on people-related strategy and initiatives.

Potential conflicts of interest are avoided at all times

II. Use of remuneration consultants

During the year, no remuneration consultants were engaged, and no recommendations, as defined by the Corporations Act 2001, were provided by remuneration consultants.

III. Adjustment framework

Variable pay reinforces behaviours aligned to IAG's purpose, encouraging both prudent risk-taking and risk mitigation that protects the long-term financial soundness and reputation of the Group. The Board retains overriding discretion to adjust variable pay (upwards, downwards and to zero) including:

- where a person or group of persons has been found to have engaged in misconduct or exposed IAG to risk beyond its risk appetite or controls;
- where it is necessary to protect the Group's long-term financial soundness;
- to take into account the outcomes of business activities;
- where it is required by law or APRA Prudential Standards; or
- any other circumstances the Board determines are relevant.

Each year, the PARC makes a recommendation to the Board on whether to adjust variable pay for Executives based on risk management performance. Adjustments may be applied to variable pay awards for current and/or prior years using one or both of the following mechanisms:

- in-year STI adjustment; and
- adjustment of awarded but unvested variable pay (malus).

The PARC's recommendations are informed by the identification and assessment of material financial and non-financial risks across the Group by the Risk Committee. The Risk Committee uses a range of inputs to support its assessment of risk management performance, including:

- a report by the Chief Risk Officer;
- a report by the Executive General Manager, Group Internal Audit; and
- the Group CEO's insights and recommendations.

The Board determined to make a number of downward risk-related adjustments (malus adjustments) to deferred awards of senior leaders in relation to risk failures identified and assessed during the year. Malus adjustments were made to current and former Executives as well as some senior managers below Key Management Personnel.

IV. Mandatory shareholding requirement for Executives

Table 9 outlines the mandatory shareholding requirements for Executives.

TABLE 9 – MANDATORY SHAREHOLDING REQUIREMENT

	ORDINARY SHARES TO ACCUMULATE AND HOLD	PERIOD TO ACCUMULATE (from date of appointment)
Group CEO	2 x base salary	Four years
Executives (other than the Chief Risk Officer)	1 x base salary	Four years
Chief Risk Officer	1 x base salary	Five years

The mandatory shareholding requirement for Executives is based on either the value of shares at acquisition or the market value at the testing date, whichever is higher. This allows Executives to build a long-term shareholding in IAG without being impacted by short-term share price volatility. Compliance with this requirement is assessed at the end of each financial year, using the 30-day volume-weighted average share price leading up to and including 30 June, the value of shares at acquisition, and the Executive's base salary from the start of the accumulation period.

All Executives appointed prior to 30 June 2016 met the mandatory shareholding requirement at 30 June 2020.

E. NON-EXECUTIVE DIRECTOR REMUNERATION

I. Remuneration policy

The principles that underpin IAG's approach to remuneration for Non-Executive Directors are that remuneration should:

- be sufficiently competitive to attract and retain a high calibre of Non-Executive Director; and
- create alignment between the interests of Non-Executive Directors and shareholders through the mandatory shareholding requirement.

II. Mandatory shareholding requirement for Non-Executive Directors

Non-Executive Directors are required to accumulate and hold ordinary shares of the Company with a value equal to their annual Board fee. The Non-Executive Directors have three years from the date of their appointment to the Board to meet their required holding.

The mandatory shareholding requirement for Non-Executive Directors is based on either the value of shares at acquisition or the market value at the testing date, whichever is higher. This allows Non-Executive Directors to build a long-term shareholding in IAG without being impacted by short-term share price volatility. Compliance with this requirement is assessed at the end of each financial year, using the 30-day volume-weighted average share price leading up to and including 30 June and the value of shares at acquisition.

All Non-Executive Directors appointed prior to 30 June 2017 met the mandatory shareholding requirement at 30 June 2020.

III. Remuneration structure

Non-Executive Director remuneration comprises:

- Board fees (paid as cash, superannuation and Non-Executive Director Award Rights);
- Committee fees; and
- subsidiary board fees.

The aggregate limit of Board fees (as approved by shareholders at the Annual General Meeting in October 2013) is $3,500,000 per annum.

Directors can elect the portion of fees contributed into their nominated superannuation fund, provided minimum legislated contribution levels are met.

a. CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION DURING THE YEAR ENDED 30 JUNE 2020

In the year ended 30 June 2020, there were no changes to Board and Committee fees for the Insurance Australia Group Limited Board. There have been no changes to Board or Committee fees since the year ended 30 June 2017.

b. INSURANCE AUSTRALIA GROUP LIMITED BOARD FEES

A summary of fees for service to the Insurance Australia Group Limited Board is set out below:

TABLE 10 – BOARD AND COMMITTEE FEES (INCLUSIVE OF SUPERANNUATION)

		ROLE	
BOARD/COMMITTEE	YEAR	CHAIRMAN	DIRECTOR/ MEMBER
Board	**2020**	**$577,116**	**$192,372**
Audit Committee	**2020**	**$50,000**	**$25,000**
Risk Committee	**2020**	**$50,000**	**$25,000**
People and Remuneration Committee	**2020**	**$50,000**	**$25,000**
Nomination Committee	**2020**	**N/A**	**N/A**

c. SUBSIDIARY BOARD FEES

The fees for service provided to subsidiary boards were unchanged from the previous year. A summary of fees is set out below:

TABLE 11 – FEES FOR NON-EXECUTIVE DIRECTORS' SERVICE ON SUBSIDIARY BOARDS (INCLUSIVE OF SUPERANNUATION)

DIRECTOR	SUBSIDIARY BOARD	CAPACITY	ANNUAL FEE
Elizabeth Bryan	Insurance Manufacturers of Australia Pty Limited	Chairman	$184,800
Hugh Fletcher(1)	IAG New Zealand Limited	Chairman	$45,302
Simon Allen(1)	IAG New Zealand Limited	Chairman	$87,531

(1) These amounts were paid to Hugh Fletcher and Simon Allen in New Zealand dollars for the period for which they served in the role and reported in Australian dollars using the average exchange rate for the year ended 30 June 2020 which was 1 NZD = 0.94825 AUD.

d. NON-EXECUTIVE DIRECTOR AWARD RIGHTS PLAN (NARS PLAN)

Non-Executive Directors may elect to receive some or all fees in rights over IAG shares. Structuring Non-Executive Director fees in this manner supports Non-Executive Directors build their shareholdings in IAG, which enhances the alignment of interests between Non-Executive Directors and shareholders as well as facilitating the achievement of mandatory shareholding requirements.

TABLE 12 – NON-EXECUTIVE DIRECTOR AWARD RIGHTS PLAN (NARS PLAN)

Participation	Each Non-Executive Director may agree with IAG to have a proportion of their base Board fee provided as NARs. Participation in the NARs Plan is voluntary.
Performance measures	There are no performance conditions attached to the NARs Plan, which reflects good governance practices by ensuring that the structure of Non-Executive Director remuneration does not act to bias decision-making or compromise objectivity. A service condition is attached to the vesting of the NARs. The full annual allocation of unvested NARs is issued at the grant date, with tranches vesting each month to align the vesting of NARs with the payment of Non-Executive Director fees. As the grant date for NARs is part way through a financial year, a proportion of the NARs granted is immediately vested.
Instrument	Grants under the NARs Plan are in the form of rights over the Company's ordinary shares. Each NAR entitles the Non-Executive Director to acquire one ordinary share in IAG subject to satisfaction of a service condition.
Allocation methodology	The number of NARs offered is determined by dividing the amount of base fee nominated by the five-day VWAP up to and including the grant date, rounded to the nearest NAR.
Voting rights	Non-Executive Directors have no voting rights until the NARs are exercised and the Non-Executive Director holds shares in IAG.
Exercise price	As NARs are purchased by Non-Executive Directors via fee sacrifice arrangements at grant, Non-Executive Directors do not have to pay any amount to exercise NARs.
Expiry date	NARs expire on the date that is 15 years from the grant date, or any other date determined by the Board (Expiry Date). NARs that are not exercised before the Expiry Date will lapse.
Hedging of NARs	Non-Executive Directors may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG securities.
Forfeiture conditions	In the event a Non-Executive Director ceases service with the Board, any vested NARs may be exercised for shares in IAG in the subsequent trading window. Any unvested NARs will lapse. Under certain circumstances (e.g. change of control), the Board also has sole and absolute discretion to deal with the NARs, including waiving any applicable vesting conditions and/or exercise conditions by giving notice or allowing a Non-Executive Director affected by the relevant event to transfer their NARs.

APPENDIX 1. STATUTORY REMUNERATION DISCLOSURE REQUIREMENTS

I. Total remuneration for Executives

Statutory remuneration details for Executives as required by Australian Accounting Standards are set out below:

TABLE 13 – STATUTORY REMUNERATION DETAILS (EXECUTIVES)

	SHORT-TERM EMPLOYMENT BENEFITS			POST EMPLOY-MENT BENEFITS	OTHER LONG-TERM EMPLOY-MENT BENEFITS	TERM-INATION BENEFITS	SUB-TOTAL	SHARE-BASED PAYMENT		TOTAL	AT-RISK REMUN-ERATION
	Base salary	Cash STI	Leave accruals and other benefits	Superan-nuation	Long service leave accruals			Value of deferred STI	Value of LTI		As a % of total reward
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
	(1)	(2)	(3)	(4)	(5)	(6)		(7)	(8)		(9)
EXECUTIVES											
Peter Harmer											
2020	**1,875**	**-**	**(2)**	**25**	**28**	**-**	**1,926**	**562**	**1,565**	**4,053**	**52**
2019	1,833	709	109	25	27	-	2,703	512	1,562	4,777	58
Julie Batch(10)											
2020	**742**	**-**	**(10)**	**25**	**11**	**-**	**768**	**192**	**500**	**1,460**	**47**
2019	703	269	(8)	25	11	-	1,000	160	493	1,653	56
Nicholas Hawkins(11)											
2020	**1,175**	**-**	**(12)**	**25**	**18**	**-**	**1,206**	**353**	**874**	**2,433**	**50**
2019	1,175	480	97	25	(64)	-	1,713	303	896	2,912	58
Michelle McPherson(12)											
2020	**176**	**-**	**244**	**8**	**1**	**-**	**429**	**-**	**-**	**429**	**-**
Mark Milliner											
2020	**1,075**	**-**	**20**	**25**	**16**	**-**	**1,136**	**291**	**973**	**2,400**	**53**
2019	1,054	432	101	25	16	-	1,628	329	910	2,867	58
Craig Olsen(13)											
2020	**802**	**-**	**38**	**-**	**-**	**-**	**840**	**234**	**528**	**1,602**	**48**
2019	785	339	62	-	-	-	1,186	177	519	1,882	55
Christine Stasi(14)											
2020	**476**	**-**	**276**	**16**	**5**	**-**	**773**	**31**	**23**	**827**	**7**
David Watts(15)											
2020	**850**	**-**	**3**	**25**	**13**	**-**	**891**	**455**	**178**	**1,524**	**42**
2019	679	176	24	25	8	-	912	102	27	1,041	29

(1) Base salary includes amounts paid in cash plus the portion of IAG's superannuation contribution that is paid as cash instead of being paid into superannuation, and salary sacrifice items such as cars and parking, as determined in accordance with *AASB 119 Employee Benefits*. Julie Batch received a fixed pay increase during the 2020 financial year.

(2) Cash STI earned within the year ended 30 June and to be paid in the following September (representing 50% of the award made for the financial year).

(3) This column includes annual and mid-service leave accruals, 30% tax rebate on car allowances for certain KMPs who have salary sacrifice arrangements on cars, the ex-gratia payment for DARs affected by the change in record date, and other short-term employment benefits as agreed and provided under specific conditions. Other benefits provided to Craig Olsen include salary continuance insurance.

(4) Superannuation represents the employer's contributions.

(5) Long service leave accruals as determined in accordance with *AASB 119*.

(6) Payment in lieu of notice which incorporates statutory notice and severance entitlements.

(7) The deferred STI is granted as DARs and is valued using the Black-Scholes valuation model. An allocated portion of unvested DARs is included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2020 will be granted in the next financial year, so no value was included in the current financial year's total remuneration.

(8) This value represents the allocated portion of unvested EPRs (unvested LTI). To determine the value of EPRs, a Monte Carlo simulation (for the relative TSR performance hurdle) and Black-Scholes valuation (for the cash ROE performance hurdle) have been applied. The valuations takes into account the exercise price of the EPRs, life of the EPRs, price of ordinary shares of the Company as at the grant date, expected volatility of the Company's share price, expected dividends, risk free interest rate, performance of shares in the peer group of companies, early exercise and non-transferability and turnover which is assumed to be zero for an individual's remuneration calculation.

(9) At-risk remuneration is dependent on a combination of the financial performance of IAG, the Executives' performance against individual measures (financial and non-financial) and continuing employment. At-risk remuneration typically includes STI (cash and deferred remuneration) and LTI.

(10) Julie Batch was appointed to the role of Chief Strategy and Innovation Officer on 24 February 2020. Prior to this appointment she was Chief Customer Officer. Ms Batch's remuneration is shown for the full financial year.

(11) Nicholas Hawkins was appointed to the role of Deputy CEO on 8 April 2020. Prior to this appointment he was the Chief Financial Officer. Mr Hawkins' remuneration is shown for the full financial year.

(12) Michelle McPherson commenced as Acting Chief Financial Officer on 8 April 2020. Her remuneration is shown for the period for which she served as KMP. In August 2020 Michelle McPherson will receive a $509,176 cash payment and in November 2020 a $765,824 DARs allocation as compensation for incentives foregone from her previous employer. The portion that relates to service in the current year is shown above.

(13) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2020 which was 1 NZD = 0.94825 AUD.

(14) Christine Stasi commenced as Group Executive, People, Performance and Reputation on 4 November 2019. Her remuneration is shown for the period for which she served as KMP. In February 2020 Christine Stasi received a $250,000 cash payment and in April 2020 received 51,000 DARs as compensation for incentives foregone from her previous employer.

(15) David Watts commenced as Chief Risk Officer from 11 September 2018 and his remuneration in the prior year is shown for the period for which he served as KMP.

II. Total remuneration details for Non-Executive Directors

Details of total remuneration for Non-Executive Directors are set out below:

TABLE 14 – STATUTORY REMUNERATION DETAILS (NON-EXECUTIVE DIRECTORS)

	SHORT-TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		OTHER LONG-TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE-BASED PAYMENT	TOTAL
	IAG Board fees received as cash	Other board and Committee fees	Superannuation	Retirement benefits				
	$000	$000	$000	$000	$000	$000	$000	$000
NON-EXECUTIVE DIRECTORS								
Elizabeth Bryan								
2020	**440**	**169**	**21**	**-**	**-**	**-**	**125**	**755**
2019	485	169	21	-	-	-	113	788
Simon Allen(1)								
2020	**112**	**117**	**13**	**-**	**-**	**-**	**-**	**242**
Duncan Boyle								
2020	**176**	**91**	**25**	**-**	**-**	**-**	**-**	**292**
2019	176	91	25	-	-	-	-	292
Sheila McGregor								
2020	**88**	**39**	**20**	**-**	**-**	**-**	**83**	**230**
2019	44	23	19	-	-	-	124	210
Jon Nicholson								
2020	**176**	**68**	**23**	**-**	**-**	**-**	**-**	**267**
2019	176	68	23	-	-	-	-	267
Helen Nugent								
2020	**176**	**46**	**21**	**-**	**-**	**-**	**-**	**243**
2019	176	46	21	-	-	-	-	243
Tom Pockett								
2020	**178**	**68**	**21**	**-**	**-**	**-**	**-**	**267**
2019	178	68	21	-	-	-	-	267
George Savvides(2)								
2020	**176**	**46**	**22**	**-**	**-**	**-**	**-**	**244**
2019	10	1	1	-	-	-	-	12
Michelle Tredenick								
2020	**88**	**39**	**20**	**-**	**-**	**-**	**83**	**230**
2019	135	23	19	-	-	-	53	230
NON-EXECUTIVE DIRECTOR WHO CEASED AS KMP								
Hugh Fletcher(3)								
2020	**59**	**61**	**7**	**-**	**-**	**-**	**-**	**127**
2019	176	186	21	-	-	-	-	383

(1) Non-Executive Director appointed part way through the year ended 30 June 2020.
(2) Non-Executive Director appointed part way through the year ended 30 June 2019.
(3) Non-Executive Director ceased as KMP part way through the year ended 30 June 2020.

APPENDIX 2. EXECUTIVE EMPLOYMENT AGREEMENTS

Details are provided below of contractual elements for the Group CEO and Executives.

TABLE 15 – EXECUTIVE EMPLOYMENT AGREEMENTS

	Group CEO and Australian Executives	Chief Executive, New Zealand
Employing entity	Insurance Australia Group Services Pty Limited	IAG New Zealand Limited
Term	Unlimited term – may be terminated by written notice from either party or by IAG making a payment in lieu of notice.	
Annual remuneration review	Requires an annual review of remuneration. Does not require IAG to increase fixed pay, pay STI or offer an LTI in any given year.	
Termination of employment with notice or payment in lieu of notice	The employment of an Executive may be terminated at any time with 12 months' notice or payment in lieu of notice. Payment in lieu of notice will be calculated based on fixed pay. If an Executive terminates voluntarily, they are required to provide six months' notice. Subject to the relevant legislation in the various jurisdictions, termination provisions may include the payment of annual leave and/or long service leave for the Executives.	
Termination of employment without notice and without payment in lieu of notice	The employment of an Executive may be terminated without notice and without payment in lieu of notice in some circumstances. Generally, this would occur where the Executive: ▪ is charged with a criminal offence that could bring the organisation into disrepute; ▪ is declared bankrupt; ▪ breaches a provision of their employment agreement; ▪ is guilty of serious and wilful misconduct; or ▪ unreasonably fails to comply with any material and lawful direction given by the relevant company.	
Redundancy arrangements	During the year, the Board reviewed redundancy arrangements for Executives in light of developments in the regulatory environment, market trends, and shareholder and community expectations. The Board determined to limit redundancy payments for Executives to 12 months' fixed pay. Grandfathering arrangements apply for Nicholas Hawkins and Julie Batch, who had their existing redundancy entitlements of 66 weeks and 54 weeks of fixed pay respectively preserved.	The Chief Executive, New Zealand Craig Olsen is employed by a New Zealand entity and is not subject to the Australian redundancy policy. Under his employment agreement in the event of redundancy, Craig Olsen is entitled to a 12-month notice period, or payment in lieu of notice, subject to any adjustments that may be required to ensure compliance with the termination benefits provisions in the *Corporations Act 2001*.

No KMP contracts were terminated during the reporting period.

Peter Harmer advised the Board of his intention to retire at the end of the 2020 calendar year. On retirement, Mr Harmer will retain all of his unvested share rights and any deferred STI. Those rights and deferred STI will continue to vest per the standard Board-approved schedule and remain subject to any future risk adjustments.

APPENDIX 3. MOVEMENT IN EQUITY PLANS WITHIN THE FINANCIAL YEAR

Changes in each Executive's holding of DARs and EPRs and each Non-Executive Director's holdings of NARs during the financial year are set out below. The DARs granted during the year ended 30 June 2020 reflect the deferred portion of the STI outcome for the year ended 30 June 2019. The EPRs granted during the year ended 30 June 2020 were in relation to the LTI plan. The NARs granted during the year ended 30 June 2020 represent the total number of rights a Non-Executive Director has agreed to receive as part of the payment of their base Board fees.

TABLE 16 – MOVEMENT IN POTENTIAL VALUE OF DARS, EPRS AND NARS FOR THE YEAR ENDED 30 JUNE 2020

		RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED		RIGHTS EXERCISED		RIGHTS LAPSED		RIGHTS ON ISSUE AT 30 JUNE	RIGHTS VESTED DURING THE YEAR	RIGHTS VESTED AND EXERCIS-ABLE AT 30 JUNE
		Number	Number	Value $000	Number	Value $000	Number	Value $000	Number	Number	Number
		(1)		(2)		(3)					
EXECUTIVES											
Peter	DAR	118,693	90,300	675	(80,843)	581	-	-	128,150	80,843	-
Harmer	EPR	1,399,071	399,100	2,044	(408,995)	2,942	-	-	1,389,176	408,995	-
Julie	DAR	37,623	34,300	257	(25,473)	183	-	-	46,450	25,473	-
Batch	EPR	435,072	117,000	599	(118,732)	854	-	-	433,340	118,732	-
Nicholas	DAR	70,503	61,200	458	(47,403)	341	-	-	84,300	47,403	-
Hawkins	EPR	808,102	213,900	1,096	(245,319)	1,764	-	-	776,683	245,319	-
Michelle	DAR	-	-	-	-	-	-	-	-	-	-
McPherson	EPR	-	-	-	-	-	-	-	-	-	-
Mark	DAR	54,952	55,000	411	(37,602)	270	-	-	72,350	37,602	-
Milliner	EPR	816,382	196,100	1,005	(221,309)	1,592	-	-	791,173	221,309	-
Craig	DAR	44,296	43,200	323	(29,346)	211	-	-	58,150	29,346	-
Olsen(4)	EPR	460,866	43,300	222	(123,026)	885	-	-	381,140	123,026	-
Christine	DAR	-	51,000	310	-	-	-	-	51,000	-	-
Stasi(5)	EPR	-	119,400	462	-	-	-	-	119,400	-	-
David	DAR	108,300	22,400	168	(54,150)	389	-	-	76,550	54,150	-
Watts	EPR	84,200	89,100	456	-	-	-	-	173,300	-	-
NON-EXECUTIVE DIRECTORS											
Elizabeth Bryan	NAR	6,678	15,951	125	(17,318)	125	-	-	5,311	15,951	5,311
Sheila McGregor	NAR	8,584	10,634	83	(15,680)	113	-	-	3,538	10,634	3,538
Michelle Tredenick	NAR	3,116	10,634	83	(10,212)	73	-	-	3,538	10,634	3,538

(1) Opening number of rights on issue represents the balance as at the date of appointment as KMP or 1 July 2019.

(2) The value of the DARs granted during the year is the fair value at grant date calculated using the Black-Scholes valuation model. The value of the DARs granted on 12 November 2019 and 17 April 2020 was $7.48 and $6.09 respectively. This amount is allocated to remuneration over years ending 30 June 2020 to 30 June 2022. The value of the cash ROE portion of the EPRs granted on 12 November 2019 and 17 April 2020 is the fair value at grant date, calculated using the Black-Scholes valuation model, which was $6.80 and $5.45 respectively. The cash ROE portion of the EPR grants is first exercisable after the performance period concludes on 30 June 2023. The value of the relative TSR portion of the EPRs granted on 12 November 2019 and 17 April 2020 is the fair value at grant date, calculated using the Monte Carlo simulation, which was $3.45 and $2.29 respectively. The relative TSR portion of the EPRs is first exercisable on 30 June 2023. The amount is allocated to remuneration over the years ending 30 June 2020 to 30 June 2023. The value of the NARs granted during the year is the fair value at grant date calculated using the Black-Scholes valuation model. The value of the annual NARs granted on 15 September 2019 was $7.85. This amount was allocated to remuneration over the year ended 30 June 2020.

(3) Rights vested and exercised during the financial year. The value of the rights exercised is based on the annual VWAP for the year ended 30 June 2020, which was $7.19.

(4) Craig Olsen was incorrectly not awarded a full allocation of EPRs in the current year. These EPRs will be awarded next year under the same terms and conditions as the 2020 financial year EPRs. Table 13 reflects the accounting value of the intended 2020 financial year allocation of 126,900 EPRs.

(5) Christine Stasi received 51,000 DARs in April 2020 as compensation for incentives forgone on leaving her previous employer.

I. LTI awards outstanding during the year ended 30 June 2020

Details of outstanding LTI awards made to Executives in the year ended 30 June 2020 are shown in the table below.

TABLE 17 – LTI AWARDS OUTSTANDING DURING THE YEAR ENDED 30 JUNE 2020

AWARD	GRANT DATE	BASE DATE	TEST DATE	PERFORMANCE HURDLE ACHIEVEMENT	LAST EXERCISE DATE
2019/2020 – TSR(1)	17/04/2020	01/07/2019	30/06/2023	N/A	17/04/2027
2019/2020 – ROE(1)	17/04/2020	01/07/2019	30/06/2023	N/A	17/04/2027
2019/2020 – TSR(1)	12/11/2019	01/07/2019	30/06/2023	N/A	12/11/2026
2019/2020 – ROE(1)	12/11/2019	01/07/2019	30/06/2023	N/A	12/11/2026
2018/2019 – TSR(1)	29/03/2019	01/07/2018	30/06/2022	N/A	29/03/2026
2018/2019 – ROE(1)	29/03/2019	01/07/2018	30/06/2022	N/A	29/03/2026
2018/2019 – TSR(1)	05/11/2018	01/07/2018	30/06/2022	N/A	05/11/2025
2018/2019 – ROE(1)	05/11/2018	01/07/2018	30/06/2022	N/A	05/11/2025
2017/2018 – TSR(1)	30/04/2018	30/09/2017	30/09/2021	N/A	30/04/2025
2017/2018 – ROE(1),(2)	30/04/2018	01/07/2017	30/06/2020	N/A	30/04/2025
2017/2018 – TSR(1)	03/11/2017	30/09/2017	30/09/2021	N/A	03/11/2024
2017/2018 – ROE(1),(2)	03/11/2017	01/07/2017	30/06/2020	N/A	03/11/2024
2016/2017 – TSR(1)	24/03/2017	30/09/2016	30/09/2020	N/A	24/03/2024
2016/2017 – ROE(1)	24/03/2017	01/07/2016	30/06/2019	100%	24/03/2024
2016/2017 – TSR(1)	02/11/2016	30/09/2016	30/09/2020	N/A	02/11/2023
2016/2017 – ROE(1)	02/11/2016	01/07/2016	30/06/2019	100%	02/11/2023
2015/2016 – TSR(1)	31/03/2016	30/09/2015	30/09/2019	100%	31/03/2023
2015/2016 – TSR(1)	02/11/2015	30/09/2015	30/09/2019	100%	02/11/2022

(1) Terms and conditions for LTI plans from 2015/2016 to 2019/2020 relating to relative TSR and cash ROE are the same.

(2) The cash ROE portion of LTI plan 2017/2018 has been tested and is expected to vest at 82% of maximum. Vesting details will be included in the Remuneration Report for the year ending 30 June 2021.

APPENDIX 4. RELATED PARTY INTERESTS

In accordance with the *Corporations Act Regulation 2M.3.03*, the Remuneration Report includes disclosure of related parties' interests.

I. Movements in total number of ordinary shares held

The relevant interests of each KMP and their related parties in ordinary shares of the Company are disclosed in the table below.

TABLE 18 – MOVEMENT IN TOTAL NUMBER OF ORDINARY SHARES HELD

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF DARS	SHARES RECEIVED ON EXERCISE OF EPRS	SHARES RECEIVED ON EXERCISE OF NARS	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES(1)	TOTAL SHARES HELD AT 30 JUNE	SHARES HELD NOMINALLY AT 30 JUNE(2)
	Number	Number	Number	Number	Number	Number	Number
2020							
NON-EXECUTIVE DIRECTORS AND EXECUTIVES							
Elizabeth Bryan	75,458	-	-	17,318	-	92,776	92,776
Simon Allen(3)	-	-	-	-	-	-	-
Duncan Boyle	31,894	-	-	-	-	31,894	31,894
Sheila McGregor	7,786	-	-	15,680	-	23,466	23,466
Jon Nicholson	33,761	-	-	-	-	33,761	23,584
Helen Nugent	26,630	-	-	-	-	26,630	26,630
Tom Pockett	32,057	-	-	-	176	32,233	-
George Savvides	-	-	-	-	8,660	8,660	8,660
Michelle Tredenick	4,368	-	-	10,212	-	14,580	-
Peter Harmer	1,131,722	80,843	408,995	-	(400,000)	1,221,560	-
Julie Batch	93,174	25,473	118,732	-	-	237,379	-
Nicholas Hawkins	175,000	47,403	245,319	-	(297,722)	170,000	-
Michelle McPherson(3)	448	-	-	-	-	448	448
Mark Milliner	108,072	37,602	221,309	-	(209,204)	157,779	174
Craig Olsen	264,591	29,346	123,026	-	(225,000)	191,963	14,445
Christine Stasi(3)	-	-	-	-	-	-	-
David Watts	28	54,150	-	-	(54,004)	174	174

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF DARS	SHARES RECEIVED ON EXERCISE OF EPRS	SHARES RECEIVED ON EXERCISE OF NARS	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES(1)	TOTAL SHARES HELD AT 30 JUNE	SHARES HELD NOMINALLY AT 30 JUNE(2)
	Number	Number	Number	Number	Number	Number	Number
NON-EXECUTIVE DIRECTOR WHO CEASED AS KMP(4)							
Hugh Fletcher	85,023	-	-	-	887	85,910	38,016

(1) Net movement of shares relates to acquisition and disposal transactions by the KMP and their related parties during the year.

(2) Shares nominally held are included in the column headed total shares held at 30 June and include those held by the KMP's related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the KMP.

(3) Opening number of shares held represents the balance as at the date of appointment.

(4) Information on shares held is disclosed up to the date of cessation.

II. Movements in total number of capital notes held

No KMP had any interest directly or nominally in capital notes during the financial year (2019: nil).

III. Relevant interest of each Director and their related parties in listed securities of the Group in accordance with the *Corporations Act 2001*

TABLE 19 – HOLDINGS OF SHARES AND CAPITAL NOTES AS AT 30 JUNE 2020

	ORDINARY SHARES		CAPITAL NOTES	
	Held directly(1)	Held indirectly(2)	Held directly	Held indirectly
Elizabeth Bryan	-	92,776	-	-
Simon Allen	-	-	-	-
Duncan Boyle	-	31,894	-	-
Sheila McGregor	-	23,466	-	-
Jon Nicholson	10,177	23,584	-	-
Helen Nugent	-	26,630	-	-
Tom Pockett	32,233	-	-	-
George Savvides	-	8,660	-	-
Michelle Tredenick	14,580	-	-	-
Peter Harmer	1,221,560	-	-	-

(1) This represents the relevant interest of each Director in ordinary shares issued by the Company, as notified by the Directors to the ASX in accordance with section 205G of the *Corporations Act 2001* until the date the financial report was signed. Trading in ordinary shares of the Company is covered by the restrictions which limit the ability of an IAG Director to trade in the securities of the Group where they are in a position to be aware, or are aware, of price sensitive information.

(2) These ordinary shares of the Company are held by the Director's related parties, inclusive of entities controlled, jointly controlled or significantly influenced by the Director, as notified by the Director to the ASX in accordance with section 205G of the *Corporations Act 2001*.

ROUNDING OF AMOUNTS

Unless otherwise stated, amounts in the financial report and Directors' Report have been rounded to the nearest million dollars. The Company is of a kind referred to in the ASIC Corporations Instrument 2016/191 dated 24 March 2016 issued by the Australian Securities and Investments Commission. All rounding has been conducted in accordance with that instrument.

This report meets the remuneration reporting requirements of the *Corporations Act 2001* and Accounting Standard *AASB 124 Related Party Disclosures*. The term remuneration used in this report has the same meaning as compensation as prescribed in *AASB 124*.

Signed at Sydney this 7th day of August 2020 in accordance with a resolution of the Directors.

Peter Harmer
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit of Insurance Australia Group Limited for the financial year ended 30 June 2020 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Andrew Yates
Partner

Sydney
7 August 2020

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 $m	2019 $m
Gross earned premium	2.1	**12,014**	11,942
Outwards reinsurance premium expense		**(4,776)**	(4,704)
Net earned premium (i)		**7,238**	7,238
Claims expense		**(9,711)**	(8,468)
Reinsurance and other recoveries revenue	2.1	**4,701**	3,849
Net claims expense (ii)	2.2	**(5,010)**	(4,619)
Commission expense		**(1,009)**	(1,011)
Underwriting expense		**(2,070)**	(1,833)
Reinsurance commission revenue	2.1	**1,201**	1,128
Net underwriting expense (iii)		**(1,878)**	(1,716)
Underwriting profit (i) + (ii) + (iii)		**350**	903
Investment income on assets backing insurance liabilities	2.3	**162**	339
Investment expenses on assets backing insurance liabilities		**(17)**	(18)
Insurance profit		**495**	1,224
Investment (loss)/income on shareholders' funds	2.3	**(164)**	247
Fee and other income		**441**	111
Share of net profit of associates		**57**	42
Finance costs		**(92)**	(94)
Fee-based, corporate and other expenses		**(193)**	(193)
Net loss attributable to non-controlling interests in unitholders' funds		**(9)**	(5)
Profit before income tax from continuing operations		**535**	1,332
Income tax expense	5.2	**(37)**	(363)
Profit after income tax from continuing operations		**498**	969
(Loss)/profit after income tax from discontinued operations	6.2	**(4)**	204
Profit for the year		**494**	1,173
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Net movement in foreign currency translation reserve, net of tax		**(21)**	33
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans, net of tax		**(12)**	(17)
Other comprehensive (expense)/income from continuing operations, net of tax		**(33)**	16
Other comprehensive income from discontinued operations, net of tax	6.2	**2**	20
Total comprehensive income for the year, net of tax		**463**	1,209
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent – continuing operations		**439**	871
Shareholders of the Parent – discontinued operations	6.2	**(4)**	205
Non-controlling interests – continuing operations		**59**	98
Non-controlling interests – discontinued operations	6.2	**-**	(1)
Profit for the year		**494**	1,173
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent – continuing operations		**406**	887
Shareholders of the Parent – discontinued operations	6.2	**(2)**	225
Non-controlling interests – continuing operations		**59**	98
Non-controlling interests – discontinued operations	6.2	**-**	(1)
Total comprehensive income for the year, net of tax		**463**	1,209

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	NOTE	**2020 cents**	2019 cents
EARNINGS PER SHARE – CONTINUING AND DISCONTINUED OPERATIONS			
Basic earnings per ordinary share	4.3	**18.87**	46.26
Diluted earnings per ordinary share	4.3	**18.49**	44.58
EARNINGS PER SHARE – CONTINUING OPERATIONS			
Basic earnings per ordinary share	4.3	**19.05**	37.45
Diluted earnings per ordinary share	4.3	**18.65**	36.44

The above consolidated statement of comprehensive income should be read in conjunction with the notes to the financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2020

	NOTE	2020 $m	2019 $m
ASSETS			
Cash held for operational purposes	8.1	**405**	538
Investments	2.3	**10,100**	10,684
Trade and other receivables	2.6	**4,419**	4,170
Current tax assets		**212**	107
Assets held for sale	6.2	**33**	61
Reinsurance and other recoveries on outstanding claims	2.2	**6,069**	5,779
Deferred insurance expenses	2.5	**3,501**	3,451
Deferred levies and charges		**119**	105
Deferred tax assets	5.2	**575**	453
Right-of-use assets	5.4	**531**	-
Property and equipment		**132**	181
Other assets		**113**	115
Investment in joint venture and associates	6.5	**351**	544
Goodwill and intangible assets	5.1	**3,134**	3,098
Total assets		**29,694**	29,286
LIABILITIES			
Trade and other payables	2.7	**2,800**	2,680
Current tax liabilities		**31**	29
Liabilities held for sale	6.2	**14**	27
Unearned premium liability	2.4	**6,276**	6,334
Outstanding claims liability	2.2	**10,584**	10,296
Lease liabilities	5.4	**655**	-
Non-controlling interests in unitholders' funds		**330**	245
Provisions	5.3	**639**	389
Other liabilities		**485**	496
Interest-bearing liabilities	4.1	**1,526**	2,080
Total liabilities		**23,340**	22,576
Net assets		**6,354**	6,710
EQUITY			
Share capital	4.2	**6,617**	6,617
Treasury shares held in trust		**(49)**	(48)
Reserves		**30**	46
Retained earnings		**(521)**	(211)
Parent interest		**6,077**	6,404
Non-controlling interests		**277**	306
Total equity		**6,354**	6,710

The above consolidated balance sheet should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	SHARE CAPITAL $m	TREASURY SHARES HELD IN TRUST $m	FOREIGN CURRENCY TRANSLATION RESERVE $m	SHARE-BASED REMUN-ERATION RESERVE $m	RETAINED EARNINGS $m	NON-CONTROLLING INTERESTS $m	TOTAL EQUITY $m
2020							
Balance at the beginning of the financial year	**6,617**	**(48)**	**20**	**26**	**(211)**	**306**	**6,710**
Adjustment on initial application of AASB 16, net of tax (see Note 8.5)	**-**	**-**	**-**	**-**	**(33)**	**-**	**(33)**
Restated balance at the beginning of the financial year	**6,617**	**(48)**	**20**	**26**	**(244)**	**306**	**6,677**
Profit for the year	**-**	**-**	**-**	**-**	**435**	**59**	**494**
Other comprehensive income/(expense)	**-**	**-**	**(19)**	**-**	**(12)**	**-**	**(31)**
Total comprehensive income for the year	**-**	**-**	**(19)**	**-**	**423**	**59**	**463**
Transactions with owners in their capacity as owners							
Share-based remuneration	**-**	**(1)**	**-**	**3**	**(8)**	**-**	**(6)**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(693)**	**(87)**	**(780)**
Dividends received on treasury shares held in trust	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Balance at the end of the financial year	**6,617**	**(49)**	**1**	**29**	**(521)**	**277**	**6,354**
2019							
Balance at the beginning of the financial year	7,082	(27)	(33)	29	(382)	272	6,941
Profit for the year	-	-	-	-	1,076	97	1,173
Other comprehensive income/(expense)	-	-	53	-	(17)	-	36
Total comprehensive income for the year	-	-	53	-	1,059	97	1,209
Transactions with owners in their capacity as owners							
Off-market share buy-back, including transaction costs	(465)	-	-	-	-	-	(465)
Share-based remuneration	-	(21)	-	(3)	(7)	-	(31)
Dividends determined and paid	-	-	-	-	(880)	(72)	(952)
Investment in subsidiaries	-	-	-	-	(1)	11	10
Disposal of subsidiaries	-	-	-	-	-	(2)	(2)
Balance at the end of the financial year	6,617	(48)	20	26	(211)	306	6,710

The above consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 $m	2019 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		**12,181**	11,973
Reinsurance and other recoveries received		**4,170**	3,442
Claims costs paid		**(9,406)**	(8,670)
Outwards reinsurance premium expense paid		**(4,768)**	(4,617)
Dividends, interest and trust distributions received		**350**	492
Finance costs paid		**(90)**	(88)
Income taxes paid		**(234)**	(406)
Other operating receipts		**1,906**	1,974
Other operating payments		**(3,728)**	(3,511)
Net cash flows from operating activities	8.1	**381**	589
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on disposal/(acquisition) of subsidiaries and associates		**600**	407
Net cash flows from sale/(purchase) of investments and plant and equipment		**968**	668
Net cash flows from investing activities		**1,568**	1,075
CASH FLOWS FROM FINANCING ACTIVITIES			
Outlays for capital, including transaction costs		**-**	(465)
Proceeds from borrowings, net of transaction costs		**-**	447
Repayment of borrowings		**(551)**	(350)
Principal element of lease payments		**(74)**	-
Net cash flow from issue and redemption of trust units		**81**	1
Dividends paid to shareholders of the Parent		**(693)**	(880)
Dividends paid to non-controlling interests		**(87)**	(72)
Dividends received on treasury shares		**1**	-
Net cash flows from financing activities		**(1,323)**	(1,319)
Net movement in cash held		**626**	345
Effects of exchange rate changes on balances of cash held in foreign currencies		**(2)**	8
Cash and cash equivalents at the beginning of the financial year		**1,698**	1,345
Cash and cash equivalents at the end of the financial year	8.1	**2,322**	1,698

The above consolidated cash flow statement should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

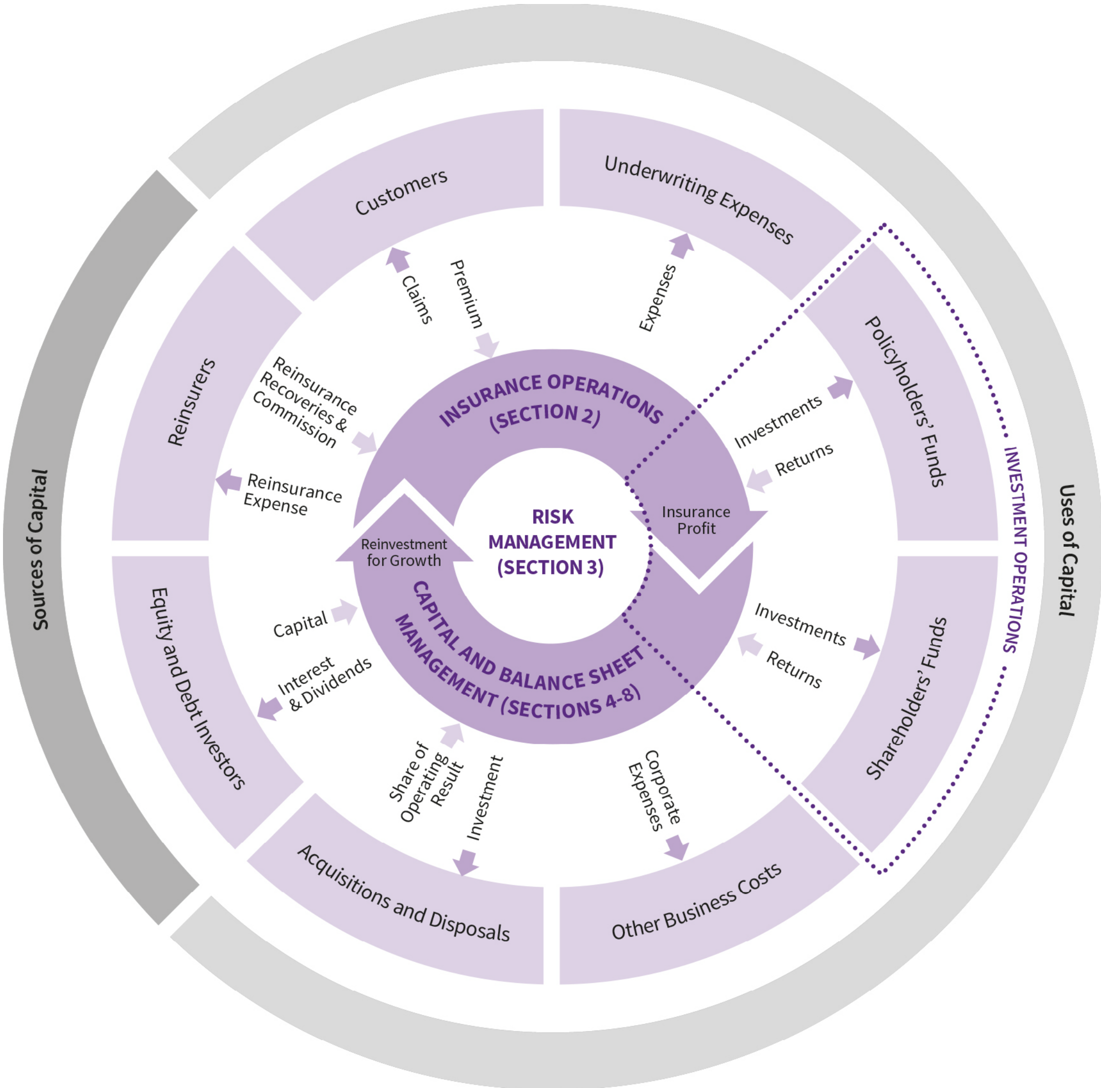
1. OVERVIEW

NOTE 1.1 INTRODUCTION

The financial report is structured to provide prominence to the disclosures that are considered most relevant to the users' understanding of the operations, results and financial position of IAG.

The financial report has been organised into the following sections:

1. Overview – contains information that affects the financial report as a whole, as well as segment reporting disclosures.
2. Insurance disclosures – financial statement disclosures considered most relevant to the core insurance activities.
3. Risk – discusses IAG's exposure to various risks, explains how these affect IAG's financial position and performance and how IAG seeks to manage and mitigate these risks.
4. Capital structure – provides information about the capital management practices of IAG and related shareholder returns.
5. Other balance sheet disclosures – discusses other balance sheet items such as goodwill and intangible assets, as well as disclosures in relation to IAG's tax balances.
6. Group structure – provides a summary of IAG's controlled entities and includes acquisition and divestment disclosure.
7. Unrecognised items – disclosure of items not recognised in the financial statements at the balance date but which could potentially have a significant impact on IAG's financial position and performance going forward.
8. Additional disclosures – other disclosures required to comply with Australian Accounting Standards.



NOTE 1.2 ABOUT THIS REPORT

A. CORPORATE INFORMATION

Insurance Australia Group Limited (Company or Parent), the ultimate parent entity in the Group, is a for-profit company, incorporated and domiciled in Australia and limited by shares publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 13, Tower Two, Darling Park, 201 Sussex Street, Sydney, NSW 2000, Australia. This financial report covers the consolidated financial statements for the Company and its subsidiaries (IAG or Group) for the year ended 30 June 2020.

A description of the nature of IAG's operations and its principal activities is included in the Directors' Report.

B. STATEMENT OF COMPLIANCE

This general purpose financial report was authorised by the Board of Directors for issue on 7 August 2020 and complies with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the *Corporations Act 2001*, Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB), other authoritative pronouncements of the AASB and the ASX Listing Rules.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB has issued a new standard (*IFRS 17 Insurance Contracts* – adopted as *AASB 17 Insurance Contracts* in an Australian context) that does include such criteria, with the current effective date of 1 January 2021. However since issuing the standard, the IASB has agreed to delay the effective date to 1 January 2023. This amendment, along with a number of others, has been included in the final amendments to the standard which were issued on 25 June 2020, with a final standard published on 10 July 2020. Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

C. BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value. All values are rounded to the nearest million dollars, unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191.

The balance sheet is prepared with the assets and liabilities presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date).

I. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 June 2020. A list of significant controlled entities is set out in Note 6.3. IAG controls an investee if it has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of those returns. Where an entity either began or ceased to be controlled during a financial year, the results are included from the date control commenced or up to the date control ceased. The financial information of all subsidiaries is prepared for consolidation for the same reporting year as the Parent. In preparing the consolidated financial statements, all inter-company balances and transactions, including income, expenses, and profits and losses resulting from intra-group transactions, have been eliminated.

Where a subsidiary is less than wholly-owned, the equity interests held by external parties are presented separately as non-controlling interests on the consolidated balance sheet, except when presented as a liability where the subsidiary is a trust or similar entity. A change in ownership of a controlled entity that results in no gain or loss of control is accounted for as an equity transaction.

II. Presentation and foreign currency

The financial report is presented in Australian dollars, which is the functional currency of the Company. Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to Australian dollars using reporting date exchange rates. Resulting exchange differences are recognised in profit or loss.

The assets and liabilities of foreign operations are translated to Australian dollars using reporting date exchange rates while equity items are translated using historical rates. The consolidated statement of comprehensive income and consolidated cash flow statement are translated using annual average rates for the reporting year. Exchange rate differences arising on translation are recorded directly in equity in the foreign currency translation reserve (FCTR). On the disposal of a foreign operation, the cumulative amount of exchange differences deferred in the FCTR relating to that foreign operation is recognised in profit or loss.

III. Reclassification of comparatives

Certain items have been reclassified from IAG's prior year financial report to conform to the current year's presentation basis. The reclassifications are:

- reclassification of other trusts in the investment composition (refer to Note 2.3 for further details); and
- reclassification of employee benefits provision (refer to Note 5.3 for further details).

D. SIGNIFICANT ACCOUNTING POLICIES ADOPTED

The accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in IAG and are the same as those applied for the previous reporting year, unless otherwise stated. The financial statements of entities operating outside Australia that maintain accounting records in accordance with overseas accounting principles are adjusted where necessary to comply with the significant accounting policies of IAG. The significant accounting policies adopted in the preparation of this financial report are set out within the relevant note.

I. Changes in accounting policies

There were new Australian Accounting Standards and Interpretations applicable for the current reporting year, with no material financial impact to IAG on adoption. Refer to Note 8.5 for further details.

II. Critical accounting estimates and judgements

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are applied and judgements are made by management, the results of which affect the amounts recognised in the financial statements. The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which they are revised, and future periods if relevant. Details of the material estimates and judgements are set out within the relevant note, as outlined below:

AREAS OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS	REFERENCE
Claims and reinsurance and other recoveries on outstanding claims	Note 2.2
Liability adequacy test	Note 2.4
Intangible assets and goodwill impairment testing, initial measurement and useful life	Note 5.1
Income tax and related assets and liabilities	Note 5.2
Customer refund provision	Note 5.3
Investment in joint venture and associates impairment testing	Note 6.5

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Group has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of the outstanding claims liability, recoverable amount assessments of non-financial assets, fair value measurement of investments and expected credit losses for both non-insurance and insurance-related receivables.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

- Outstanding claims liability

IAG's insurance portfolio has experienced several impacts as a result of COVID-19. There is a risk that the associated economic factors could be more severe than estimated and, as a result, the development of the claims over time could result in the ultimate cost of those claims being higher than the current outstanding claims liability established. The impact of COVID-19 on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year. The motor portfolio has been impacted through favourable claim frequency as a result of mobility restrictions introduced in March 2020 to slow the spread of COVID-19. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claims liability.

Where potential COVID-19 claim impacts remain highly uncertain, IAG has recognised an additional net outstanding claims provision of $106 million in relation to its Australian business. This provision has been estimated on a probability-weighted basis and spans potential business interruption, landlords' and other insurance class effects, including the estimated impact of an economic downturn on the future cost of settling long tail claims. The key consideration in respect of business interruption coverage is the legal challenge in relation to the interpretation of select contract wordings. Two issues have been identified by the Australian general insurance industry. The first relates to policy wordings that reference the Quarantine Act. The second relates to the application of prevention of access extensions in the context of a pandemic. These are industry-wide matters that are expected to be assessed through legal test cases over the coming months. Notwithstanding the view held by IAG and the general insurance industry, the litigation process can lead to unpredictable results.

In establishing the COVID-19 specific element of the net outstanding claims liability, significant judgement has been exercised to derive an estimate of the probability-weighted view of potential future cash flows. Key areas of judgement relate to the exposure period, the estimation of potential economic loss, related key macroeconomic variables, reinsurance coverage and legal risk. Given the extent of the uncertainty being faced, the range of potential financial outcomes in relation to these matters is unusually wide. As a result, a substantial part of the provision reflects a risk margin. Refer to Note 2.2 for further details on the net outstanding claims liability.

In addition to the element reflected in the net outstanding claims provision, any COVID-19 underwriting exposure related to unexpired risk has been incorporated within the estimation of premium liabilities and, as a result, in the calculation of the Group's regulatory capital position. Refer to Note 2.4 for further details on adequacy of the unearned premium liability.

The table below summarises the ways in which the various elements of the COVID-19 specific provisioning have been reflected within these financial statements. All values are calibrated to a 90% probability of adequacy (PoA) and are shown net of related reinsurance recoveries but before tax:

	2020 $m	DESCRIPTION	REFERENCE
Net outstanding claims liability	106	Probability-weighted view across impacted classes of business (as described above). The majority of this provision relates to potential business interruption exposure, and includes the related risk margin.	Note 2.2
Net premium liabilities	159	Present value of probability-weighted future cash flows that attach to the unearned premium liability. Not reflected in the balance sheet but factored into both the liability adequacy test and regulatory capital calculation at 30 June 2020.	Note 2.4 Note 3.1
Total insurance liabilities	265		

- Goodwill and intangible assets impairment

The assumptions underpinning the value-in-use calculations used to evaluate the supportability of goodwill and intangible assets were adjusted to reflect reasonable estimates of the impact of COVID-19 and the increased risks associated with the estimated cash flows. Whilst there is no impairment in relation to any of the cash-generating units at 30 June 2020, there is a heightened level of uncertainty around key assumptions in the current environment. This has the potential to materially impact the value-in-use assessment moving forward and potentially the carrying value of the respective intangible assets and goodwill. Refer to Note 5.1 for further details on goodwill and intangible assets.

- Investment in joint venture and associates impairment

The Group's associate investment in Malaysia, AmGeneral, has seen some impacts associated with the COVID-19 pandemic, including favourable motor claims frequency and lower overall growth levels in line with reduced economic activity. In performing the impairment test at 30 June 2020, the Group has revised its future forecast cash flow estimates accordingly. Whilst no impairment has been identified at the balance date, future changes in local economic conditions and the broader operating environment have the potential to materially impact key assumptions. Refer to Note 6.5 for further details on investment in joint venture and associates.

- Fair value measurement of investments

IAG's investments are designated at fair value through profit and loss, and for the vast majority of the investments, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19.

Where readily available market data is not available to determine fair value, then a mark-to-model approach is adopted. Judgement is required in both the selection of the model and inputs used. The investments which are subject to valuation using unobservable inputs are disclosed in the Group's fair value hierarchy. Refer to Note 2.3 for further details on investments.

- Expected credit losses

The impact of COVID-19 on the recoverability of receivables from (re)insurance and non-insurance contracts have been considered. While the methodologies and assumptions applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year, the Group has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic and the associated customer support packages provided. Whilst no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be deeper or more prolonged than anticipated, which could result in higher credit losses than those modelled under the base case. Refer to Note 2.6 for further details on ECL.

NOTE 1.3 SEGMENT REPORTING

IAG has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (being the chief operating decision maker) in assessing performance and determining the allocation of resources.

A. REPORTABLE SEGMENTS

IAG has general insurance operations in Australia and New Zealand, with the reportable segments for the period ended 30 June 2020 comprising the following business divisions:

I. Australia

This segment provides general insurance products to individuals, families and businesses throughout Australia, primarily through the NRMA Insurance, SGIO, SGIC brands, the RACV brand in Victoria (via a distribution and underwriting relationship with RACV), the Coles Insurance brand (via a distribution agreement with Coles) and the CGU and WFI brands through intermediaries including brokers, authorised representatives and distribution partners.

II. New Zealand

This segment provides general insurance products underwritten in New Zealand. Insurance products are sold directly to customers predominantly under the State and AMI brands, and through intermediaries (insurance brokers and authorised representatives) primarily using the NZI and Lumley Insurance brands. General insurance products are also distributed by corporate partners, such as large financial institutions, using third party brands.

III. Corporate and other

This segment comprises other activities, including corporate services, capital management activity, shareholders' funds investment activities, inward reinsurance from associates, investment in associates, and other businesses that offer products and services that are adjacent to IAG's insurance business. IAG's captive reinsurance operation (captive) is a corporate function that acts as the interface between the external providers of reinsurance capital and the operating business divisions. IAG does not manage, or view, the captive as a separate business. Consequently, the operating results of the captive are systematically allocated to the operating business segments.

B. FINANCIAL INFORMATION

	AUSTRALIA	NEW ZEALAND	CORPORATE AND OTHER	TOTAL
	$m	$m	$m	$m
2020				
I. Financial performance				
Total external revenue(1)	**14,565**	**3,616**	**395**	**18,576**
Underwriting profit/(loss)	**48**	**311**	**(9)**	**350**
Net investment income on assets backing insurance liabilities	**126**	**19**	**-**	**145**
Insurance profit/(loss)	**174**	**330**	**(9)**	**495**
Net investment loss on shareholders' funds	**-**	**-**	**(181)**	**(181)**
Share of net profit of associates	**(1)**	**-**	**58**	**57**
Finance costs	**-**	**-**	**(92)**	**(92)**
Other net operating result	**(11)**	**-**	**267**	**256**
Total segment result from continuing operations	**162**	**330**	**43**	**535**
Income tax expense				**(37)**
Profit for the year from continuing operations				**498**
II. Other segment information				
Capital expenditure(2)	**-**	**-**	**149**	**149**
Depreciation, amortisation and impairment expense	**137**	**58**	**2**	**197**
2019				
I. Financial performance				
Total external revenue(1)	13,919	3,421	318	17,658
Underwriting profit/(loss)	560	354	(11)	903
Net investment income on assets backing insurance liabilities	282	36	3	321
Insurance profit/(loss)	842	390	(8)	1,224
Net investment income on shareholders' funds	-	-	227	227
Share of net profit of associates	2	-	40	42
Finance costs	-	-	(94)	(94)
Other net operating result	(1)	-	(66)	(67)
Total segment result from continuing operations	843	390	99	1,332
Income tax expense				(363)
Profit for the year from continuing operations				969
II. Other segment information				
Capital expenditure(2)	-	-	123	123
Depreciation and amortisation expense	116	54	-	170

(1) Total external revenue comprises gross earned premium, reinsurance and other recoveries, reinsurance commission revenue, investment income on assets backing insurance liabilities, investment income on shareholders' funds, fee and other income and share of net profit/(loss) of associates.

(2) Capital expenditure includes acquisitions of property and equipment, intangibles and other non-current segment assets.

2. INSURANCE DISCLOSURES

SECTION INTRODUCTION

This section provides an overview of IAG's general insurance operations, which are the main driver of IAG's overall performance and financial position.

IAG collects premium and recognises revenue for the insurance policies it underwrites. From this, IAG pays amounts to customers on settlement of insurance claims, with the claims expense representing the largest cost to IAG, as well as operating costs, which include the costs associated with obtaining and recording insurance contracts.

To mitigate IAG's overall risk and optimise its return profile, IAG passes some of its underwriting exposure to third parties (primarily reinsurance companies). The premiums paid to reinsurers are an expense to IAG, whereas recoveries under the reinsurance contracts are recognised as revenue. These recoveries can either be in relation to operating costs (reinsurance commission) or underwriting risk (reinsurance recoveries).

Investment activities are an integral part of the insurance business. The funds received from the collection of premium are invested as a key source of return for IAG under a sound investment philosophy. IAG starts investing insurance premiums as soon as they are collected and continues to generate returns until claims or other expenses are paid out.

The underwriting result measures the profit (or loss) generated from underwriting activities in a given period. The insurance result, which is a key performance metric, adds the net investment return to the underwriting result to derive the overall pre-tax profit (or loss) from insurance operations.

NOTE 2.1 GENERAL INSURANCE REVENUE

	2020	2019
	$m	$m
A. COMPOSITION		
Gross written premium	**11,985**	12,005
Movement in unearned premium liability	**29**	(63)
Gross earned premium	**12,014**	11,942
Reinsurance and other recoveries revenue	**4,701**	3,849
Reinsurance commission revenue	**1,201**	1,128
Total general insurance revenue	**17,916**	16,919

B. RECOGNITION AND MEASUREMENT

I. Premium revenue

Premiums written are earned through the profit or loss in line with the incidence of the pattern of risk. The majority of premium is earned according to the passage of time (e.g. for a one-year policy, 1/365th of premium written will be earned each day).

II. Reinsurance and other recoveries

The recognition and measurement criteria for reinsurance and other recoveries revenue is referred to in Note 2.2.

III. Reinsurance commission revenue

Reinsurance commission revenue includes reimbursements by reinsurers to cover a share of IAG’s operating costs and, where applicable, fee income which reinsurers pay for accessing IAG's franchise. These income items are recognised broadly in line with the reference premium over the term of the reinsurance agreements. Where applicable, the reinsurance commission revenue also includes income which is based on the expected profitability of the covered business ceded to the reinsurer. The final value of the variable commission revenue recognised is subject to the achievement of a specified underlying profitability hurdle rate over time. This variable revenue is recognised over the term of the reinsurance contract on a straight-line, or other systematic basis, in accordance with the terms of the contract, and is reassessed at each reporting date.

NOTE 2.2 CLAIMS AND REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

A. NET CLAIMS EXPENSE

	2020			2019		
	CURRENT YEAR	**PRIOR YEARS**	**TOTAL**	CURRENT YEAR	PRIOR YEARS	TOTAL
	$m	**$m**	**$m**	$m	$m	$m
Gross claims – undiscounted	**9,790**	**(252)**	**9,538**	8,826	(779)	8,047
Discount	**(22)**	**195**	**173**	(52)	473	421
Gross claims – discounted	**9,768**	**(57)**	**9,711**	8,774	(306)	8,468
Reinsurance and other recoveries – undiscounted	**(4,563)**	**(24)**	**(4,587)**	(3,864)	325	(3,539)
Discount	**11**	**(125)**	**(114)**	28	(338)	(310)
Reinsurance and other recoveries – discounted	**(4,552)**	**(149)**	**(4,701)**	(3,836)	(13)	(3,849)
Net claims expense	**5,216**	**(206)**	**5,010**	4,938	(319)	4,619

B. NET OUTSTANDING CLAIMS LIABILITY

I. Composition of net outstanding claims liability

	2020	2019
	$m	$m
Gross central estimate – discounted	**8,052**	7,870
Reinsurance and other recoveries – discounted	**(4,637)**	(4,426)
Net central estimate – discounted	**3,415**	3,444
Claims handling costs – discounted	**363**	355
Risk margin	**737**	718
Net outstanding claims liability – discounted	**4,515**	4,517

The gross outstanding claims liability includes $5,707 million (2019: $5,532 million) which is expected to be settled more than 12 months from the reporting date.

The carrying value of reinsurance and other recoveries includes $3,476 million (2019: $3,227 million) which is expected to be settled more than 12 months from the reporting date.

II. Reconciliation of movements in net discounted outstanding claims liability

	2020	2019
	$m	$m
Net outstanding claims liability at the beginning of the financial year	**4,517**	4,988
Movement in the prior year central estimate	**16**	(116)
Current year claims incurred, net of reinsurance and other recoveries	**4,912**	4,611
Claims paid, net of reinsurance and other recoveries received	**(5,010)**	(5,111)
Movement in discounting	**72**	143
Movement in risk margin	**21**	(20)
Net foreign currency movements	**(13)**	22
Net outstanding claims liability at the end of the financial year	**4,515**	4,517
Reinsurance and other recoveries on outstanding claims liability	**6,069**	5,779
Gross outstanding claims liability at the end of the financial year	**10,584**	10,296

III. Maturity analysis

Refer to Note 3.1 for details of the maturity profile of the estimated net discounted outstanding claims liability based on the remaining term to payment at the reporting date.

IV. Development table

Claims will often take a number of years to be settled from the date the original loss occurred. The following table shows the development of the net undiscounted ultimate claims estimate for the ten most recent accident years and a reconciliation to the net discounted outstanding claims liability. This table provides the user with an overview of how IAG's estimates of total claim amounts payable in relation to a given year have evolved over time. If the estimate of ultimate claims in relation to a given accident year declines over time, this suggests claims have developed more favourably than was anticipated at the time the original reserving assumptions were set.

Where an entity or business that includes an outstanding claims liability has been acquired, the claims for the acquired businesses are included in the claims development table from and including the year of acquisition. The outstanding claims liability includes international operations. For ease of comparison within the claims development table, all payments not denominated in Australian dollars have been converted to Australian dollars using the applicable exchange rates at the reporting dates. Therefore, the claims development table disclosed each reporting year cannot be reconciled directly to the equivalent tables presented in previous years' financial statements.

In the 2018 financial year, IAG announced the sale of its consolidated businesses in Thailand, Vietnam and Indonesia with the sale of its Thailand operations completing in the prior financial year and its Indonesian operations in the current financial year. The development table below includes claims related to the Thailand and Indonesian operations up to the 2018 and 2019 accident year, respectively, but not beyond. Claims related to Vietnam are included up to the 2020 accident year and any outstanding claims relating to this business have been treated as paid in the table below within item (1).

											ACCIDENT YEAR	
	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
NET ULTIMATE CLAIM PAYMENTS												
Development												
At end of accident year		5,065	5,278	5,217	5,653	6,348	5,010	5,317	4,536	3,968	4,239	
One year later		5,177	5,351	5,142	5,658	6,270	4,963	5,263	4,449	4,031		
Two years later		5,217	5,291	5,061	5,571	6,206	4,904	5,227	4,439			
Three years later		5,248	5,201	4,981	5,430	6,089	4,842	5,234				
Four years later		5,450	5,149	4,901	5,361	6,086	4,848					
Five years later		5,518	5,089	4,882	5,343	6,074						
Six years later		5,531	5,078	4,884	5,315							
Seven years later		5,625	5,092	4,866								
Eight years later		5,626	5,091									
Nine years later		5,608										
Current estimate of net ultimate claim payments		5,608	5,091	4,866	5,315	6,074	4,848	5,234	4,439	4,031	4,239	
Cumulative payments made to date(1)		5,542	5,031	4,804	5,221	5,935	4,648	4,961	4,054	3,546	2,737	
Net undiscounted outstanding claims liability	178	66	60	62	94	139	200	273	385	485	1,502	3,444
Discount to present value	(2)	(1)	(1)	(1)	(1)	(2)	(2)	(3)	(3)	(5)	(8)	(29)
Net discounted outstanding claims liability	176	65	59	61	93	137	198	270	382	480	1,494	3,415
Reconciliation												
Claims handling costs												363
Risk margin												737
Net outstanding claims liability												4,515

C. RECOGNITION AND MEASUREMENT

I. Outstanding claims liability and claims expense

Claims expense represents the sum of claim payments and the movement in the closing outstanding claims liability from one financial period to the next. Current year claims relate to loss events that occurred during the current financial year. Prior year claims represent the movement on the estimates held for claims that occurred in all previous financial periods.

The outstanding claims liability is determined based on three building blocks:

- a central estimate of the future cash flows;
- discounting for the effect of the time value of money; and
- adding a risk margin for uncertainty.

a. CENTRAL ESTIMATE OF THE FUTURE CASH FLOWS

The outstanding claims liability is measured as the central estimate of the expected future payments relating to claims incurred prior to the reporting date including direct and indirect claims handling costs. The liability is measured based on the advice and/or valuations performed by, or under the direction of, the Appointed Actuary, and is intended to contain no deliberate or conscious bias toward over or under-estimation. Given the uncertainty in establishing the liability, it is likely that the final outcome will differ from the original liability established. Changes in claim estimates are recognised in profit or loss in the reporting year in which the estimates are changed.

b. DISCOUNTING

Projected future claim payments, both gross and net of reinsurance and other recoveries and associated claims handling costs, are discounted to a present value using risk free discount rates (derived from market yields on government securities) to reflect the time value of money.

c. RISK MARGIN

Given the uncertainty inherent in estimating future claim payments, it is considered appropriate to add a risk margin to the central estimate of expected future claim payments. The risk margin represents the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate. IAG currently applies a 90% probability of adequacy to the outstanding claims liability. In effect this means there is approximately a 1-in-10 chance all future claim payments will exceed the overall reserve held.

Uncertainties surrounding the liability estimation process include those relating to the available data, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims run-off process, and risks external to IAG, for example the impact of potential future legislative reform. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate. The volatility measure for each class is derived after consideration of statistical modelling and benchmarking to industry analyses. Certain product classes may be subject to the emergence of new types of latent claims, and such uncertainties are considered when setting the volatility and hence the risk margin appropriate for those classes.

Long-tail classes of business generally have the highest volatilities for outstanding claims as the longer average time for claims to be reported and settled allows more time for sources of uncertainty to emerge. Short-tail classes generally have lower levels of volatility for outstanding claims.

IAG benefits from holding a portfolio diversified into many classes of business across different regions. The risk margin required to provide a given probability of adequacy for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of risk margins for the individual classes. This reflects the benefit of diversification. The level of diversification assumed between classes takes into account industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The current risk margin and resultant overall probability of adequacy for the outstanding claims, which has been determined after assessing the inherent uncertainty in the central estimate, diversification and risks in the prevailing environment, is set out below:

	2020	2019
	%	%
The percentage risk margin applied to the net outstanding claims liability	**20**	19
The probability of adequacy of the risk margin	**90**	90

A key driver of the increased percentage in the risk margin was the inclusion of COVID-19 specific effects.

II. Reinsurance and other recoveries on outstanding claims

Reinsurance and other recoveries on outstanding claims are recognised as income with the corresponding asset being recognised on the balance sheet. Reinsurance and other recoveries on outstanding claims are measured at the present value (discounted using appropriate risk free discount rates) of the expected future receipts due as a result of the reinsurance protection that IAG has in place. The reporting date balance also includes the net goods and services tax (GST) receivable on outstanding claims.

D. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

I. Outstanding claims liability

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. The process involves using IAG's specific data, relevant industry data and general economic data. Each class of business is usually examined separately, and the process involves consideration of a large number of factors, including the risks to which the business is exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, as well as legal, social and economic factors that may affect each class of business.

In establishing the COVID-19 specific element of the net outstanding claims liability, significant management judgement has been applied to derive a reasonable estimate of the probability-weighted view of potential future cash flows. Key areas of judgement relate to the exposure period, the estimation of potential economic loss, related key macroeconomic variables (including unemployment), reinsurance coverage and legal risk. Given the extent of the uncertainty we are facing, the range of potential financial outcomes in relation to these matters is unusually wide. All related uncertainties have been factored into our probability-weighting when estimating the provision. For further details on the impact from COVID-19 refer to Note 1.2.

The following ranges of key actuarial assumptions were used in the measurement of outstanding claims and recoveries, where appropriate, within the operating segments at the reporting date.

ASSUMPTION	AUSTRALIA	NEW ZEALAND
2020		
Discounted average term to settlement	**1.97 years**	**0.92 years**
Inflation rate	**0.0-4.3%**	**0.9%**
Superimposed inflation rate	**0.0-5.0%**	**0.0%**
Discount rate	**0.2-3.5%**	**0.0-1.4%**
Claims handling costs ratio	**4.3%**	**5.0%**
2019		
Discounted average term to settlement	2.06 years	1.03 years
Inflation rate	0.0-4.3%	2.2%
Superimposed inflation rate	0.0-5.0%	0.0%
Discount rate	0.9-3.5%	1.5-2.2%
Claims handling costs ratio	4.4%	4.9%

a. DISCOUNTED AVERAGE TERM TO SETTLEMENT

The discounted average term to settlement provides a summary indication of the expected future cash flow pattern for claims (inflated and discounted). It is calculated by class of business and is generally based on historical settlement patterns. A decrease in the discounted average term to settlement would reflect claims being paid sooner than anticipated and so would increase the claims expense. Note that this sensitivity test only extends or shortens the term of the payments assumed in the valuation, without changing the total nominal amount of the payments.

b. INFLATION RATE AND SUPERIMPOSED INFLATION

Payments of claims outstanding at the reporting date are to be made in the future and so need to take account of expected increases in the underlying cost of final claim settlements due to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators. Superimposed inflation tends to occur due to wider societal trends such as the cost of court settlements increasing at a faster rate than the economic inflation rate.

c. DISCOUNT RATE

An increase or decrease in the assumed discount rate will have a corresponding decrease or increase (respectively) on the claims expense recognised in the profit or loss.

d. CLAIMS HANDLING COSTS RATIO

This reflects the cost to administer future claims. The ratio is generally calculated with reference to the historical experience of claims handling costs as a percentage of past payments, together with budgeted future costs.

II. Reinsurance and other recoveries on outstanding claims

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for the outstanding claims liability, with appropriate consideration of the credit risk of the counterparty. Accordingly, the valuation of outstanding reinsurance recoveries is subject to largely similar risks and uncertainties as the valuation of the related outstanding claims liability. Significant individual losses, for example those relating to catastrophe events, are analysed on a case-by-case basis.

E. SENSITIVITY ANALYSIS

The impact on the divisional net outstanding claims liabilities (net of reinsurance recoveries) before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes, and without regard to other balance sheet changes that may occur simultaneously. The movements are stated in absolute terms where the base assumption is a percentage or average term.

	MOVEMENT IN ASSUMPTION	AUSTRALIA	NEW ZEALAND
		$m	$m
2020			
Discounted average term to settlement	**+10%**	**(4)**	**-**
	-10%	**4**	**-**
Inflation rate	**+1%**	**75**	**4**
	-1%	**(72)**	**(4)**
Discount rate	**+1%**	**(75)**	**(4)**
	-1%	**80**	**5**
Claims handling costs ratio	**+1%**	**92**	**7**
	-1%	**(92)**	**(7)**
2019			
Discounted average term to settlement	+10%	(9)	(1)
	-10%	9	1
Inflation rate	+1%	79	4
	-1%	(76)	(4)
Discount rate	+1%	(79)	(4)
	-1%	84	4
Claims handling costs ratio	+1%	88	6
	-1%	(88)	(6)

NOTE 2.3 INVESTMENTS

	2020	2019
	$m	$m
A. INVESTMENT INCOME		
Dividend revenue	**29**	49
Interest revenue	**200**	301
Trust revenue	**56**	50
Realised net losses	**(102)**	(35)
Unrealised net (losses)/gains	**(185)**	221
Total investment (loss)/income	**(2)**	586
Represented by		
Investment income on assets backing insurance liabilities	**162**	339
Investment (loss)/income on shareholders' funds	**(164)**	247
	(2)	586
B. INVESTMENT COMPOSITION		
I. Interest-bearing investments		
Cash and short-term money	**1,893**	1,121
Government and semi-government bonds	**566**	664
Corporate bonds and notes	**5,427**	5,554
Subordinated securities	**682**	1,086
Other	**376**	279
	8,944	8,704
II. Growth investments*		
Equity investments	**1,068**	1,970
III. Other investments		
Derivatives	**88**	10
Total investments	**10,100**	10,684

* Growth investments include exposure to listed and unlisted equities, global convertible bonds, higher-yielding credit strategies and hedge funds.

For further details on the impact from COVID-19 refer to Note 1.2.

C. RECOGNITION AND MEASUREMENT

Investment revenue is brought to account on an accruals basis. Revenue on investments in equity securities and property trusts is deemed to accrue on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date.

Investments comprise assets held to back insurance liabilities (policyholder funds that represent assets available for future settlement of outstanding claims) and assets that represent shareholders' funds. The investment funds themselves are predominantly generated from the collection of insurance premiums. The allocation of investments between policyholder funds and shareholders' funds is regularly monitored and the portfolio rebalanced accordingly. To determine the allocation, IAG's investment funds under management are compared to the technical provisions of IAG, which include insurance liabilities. The policyholder funds are allocated to back the technical provisions, with the excess representing shareholders' funds.

All investments are designated at fair value through profit or loss. Investments are recorded and subsequently remeasured to fair value at each reporting date. Changes in the fair value are recognised as realised or unrealised investment gains or losses in profit or loss. IAG recognises transfers into and transfers out of fair value hierarchy levels (described below) as at the end of the reporting year. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases of investments are expensed as incurred. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

The inputs used to determine the fair value for securities recognised under each level of the fair value hierarchy is set out below.

I. Level 1 quoted prices

The fair value is determined by reference to quoted prices (mid-market) in active markets for identical assets and liabilities. For IAG, this category includes government securities and listed equities.

II. Level 2 other observable inputs

The fair value is determined by reference to quoted prices in active markets for similar assets or liabilities or by reference to other significant inputs that are not quoted prices but are based on observable market data, for example interest rate yield curves observable at commonly quoted intervals. For IAG, this category primarily includes corporate and other fixed interest securities where the market is considered to be lacking sufficient depth to be considered active. There have been no significant transfers between Level 1 and Level 2 during the current and prior financial periods.

III. Level 3 unobservable inputs

The fair value is determined using valuation techniques in which a number of the significant inputs are not based on observable market data. Level 3 investments are primarily invested in interest-bearing instruments and unlisted equity held via unlisted trusts. The fair value of these unlisted trusts is based on the net asset value as advised by the external investment manager of these funds who has responsibility for the valuation of the underlying securities. The investment manager may use various valuation techniques in the determination of fair value based on a range of internal, external and third party inputs where available. This category also includes IAG's unlisted equity interest in Bohai Property Insurance Company Limited (Bohai). The fair value of Bohai is supported by comparable industry transaction multiples observed in the local market. During the current financial year, in addition to changes in fair value, movements in level 3 investments included:

- purchases of $172 million (2019: $369 million) and sales of $63 million (2019: $133 million) in interest-bearing instruments;
- purchases of $139 million (2019: $94 million) in unlisted equity with $23 million sales in the current financial year (2019: nil); and
- there have been no significant transfers between Level 2 and Level 3 during the current and prior financial periods.

The table below separates the total investment balance by hierarchy category:

	LEVEL 1 $m	LEVEL 2 $m	LEVEL 3 $m	TOTAL $m
2020				
Interest-bearing investments	**3,001**	**5,567**	**376**	**8,944**
Growth investments	**361**	**274**	**433**	**1,068**
Other investments	**-**	**88**	**-**	**88**
	3,362	**5,929**	**809**	**10,100**
2019				
Interest-bearing investments	2,256	6,169	279	8,704
Growth investments	1,051	505	414	1,970
Other investments	-	10	-	10
	3,307	6,684	693	10,684

NOTE 2.4 UNEARNED PREMIUM LIABILITY

	2020	2019
	$m	$m
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**6,334**	6,217
Deferral of premiums written during the financial year	**6,236**	6,147
Earning of premiums written in previous financial years	**(6,265)**	(6,084)
Net foreign exchange movements	**(29)**	54
Unearned premium liability at the end of the financial year	**6,276**	6,334

The carrying value of unearned premium liability includes $45 million (2019: $69 million) which is expected to be earned more than 12 months from reporting date.

B. RECOGNITION AND MEASUREMENT

Unearned premium is the portion of premium income that has yet to be recognised in the profit or loss (i.e. unexpired portion for risks underwritten) and is calculated based on the term of the risk and in accordance with the expected pattern of the incidence of risk underwritten, using an appropriate pro-rata method.

C. ADEQUACY OF UNEARNED PREMIUM LIABILITY

I. Liability adequacy test (LAT)

The LAT assesses the adequacy of the carrying amount of the net unearned premium liability to settle future claims. To determine if any deficiency exists, estimates of future claim costs (premium liabilities net of reinsurance) are compared to the unearned premium liability (net of reinsurance and related deferred acquisition costs). If the future claim costs exceed the net premium liabilities, then a deficiency exists. Any deficiency is recognised immediately in profit or loss, with the corresponding impact on the balance sheet recognised first through the write-down of deferred acquisition costs for the relevant portfolio of contracts and then through the establishment of a provision (unexpired risk liability).

The LAT is required to be conducted at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. IAG defines 'broadly similar risks' at a level where policies are affected by one or more common risk factors, including natural peril events, general weather conditions, economic conditions, inflationary movements, legal and regulatory changes as well as legislative reforms, reinsurance cost changes and variation in other input costs. IAG defines 'managed together' at a segment level as the respective divisional CEOs collectively manage the entire portfolio within their control. The LAT is currently performed at the segment level for Australia and New Zealand.

The LAT at reporting date resulted in a surplus (2019: surplus), with the table below providing details of the net premium liabilities (net of reinsurance and adjusted for appropriate risk margin) used in the LAT:

	2020	2019
	$m	$m
Net central estimate of present value of expected cash flows on future claims	**2,875**	2,783
Risk margin of the present value of expected future cash flows	**70**	67
	2,945	2,850
Risk margin percentage	**2.4%**	2.4%
Probability of adequacy	**60.0%**	60.0%

A key driver of the year-on-year increase in the premium liabilities net of reinsurance was the inclusion of COVID-19 specific effects.

II. Significant accounting estimates and judgements

The LAT is conducted using the central estimate of the premium liabilities, applying a methodology consistent for reporting to APRA, which requires an estimation of the present value of future net cash flows (relating to future claims arising from the rights and obligations under current general insurance contracts) and adjusted for an appropriate risk margin for uncertainty in the central estimate for each portfolio of contracts. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The risk margin used in the LAT for individual portfolios is calculated by using a probability of adequacy (POA) methodology including diversification benefit, which is consistent with that used for the determination of the risk margin for the outstanding claims liability, based on assessments of the levels of risk in each portfolio. The 60% POA represented by the LAT differs from the 90% POA represented by the outstanding claims liability as the former is in effect an impairment test used only to test the sufficiency of net unearned premium liabilities, whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability. The process used to determine the risk margin, including the way in which diversification of risks has been allowed for, is explained in Note 2.2.

NOTE 2.5 DEFERRED INSURANCE EXPENSES

	DEFERRED ACQUISITION COSTS[1]		DEFERRED OUTWARDS REINSURANCE EXPENSE[2]		TOTAL DEFERRED INSURANCE EXPENSES	
	2020	2019	**2020**	2019	**2020**	2019
	$m	$m	**$m**	$m	**$m**	$m
A. RECONCILIATION OF MOVEMENTS						
At the beginning of the financial year	**928**	949	**2,523**	2,494	**3,451**	3,443
Costs deferred	**1,928**	1,832	**4,803**	4,704	**6,731**	6,536
Amortisation charged to profit	**(1,884)**	(1,862)	**(4,776)**	(4,704)	**(6,660)**	(6,566)
Net foreign exchange movements	**(5)**	9	**(16)**	29	**(21)**	38
Deferred costs at the end of the financial year	**967**	928	**2,534**	2,523	**3,501**	3,451

(1) The carrying value of deferred acquisition costs includes $4 million (2019: $9 million) which is expected to be amortised more than 12 months from reporting date.

(2) The carrying value of deferred outwards reinsurance expense includes $24 million (2019: $43 million) which is expected to be amortised more than 12 months from reporting date.

B. RECOGNITION AND MEASUREMENT

I. Acquisition costs

Acquisition costs are incurred in obtaining and recording general insurance contracts, which include advertising expenses, commission or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative costs. These costs are initially capitalised and then expensed in line with the earning pattern of the related premium. Deferred acquisition costs at the reporting date represent the acquisition costs relating to unearned premium.

II. Outwards reinsurance expense

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. The outwards reinsurance premium relating to unearned premium is treated as a prepayment at the reporting date.

NOTE 2.6 TRADE AND OTHER RECEIVABLES

	2020	2019
	$m	$m
A. COMPOSITION		
I. Premium receivable		
Gross premium receivable	**3,763**	3,784
Provision for impairment	**(44)**	(37)
Net premium receivable	**3,719**	3,747
II. Trade and other receivables[1]		
Reinsurance recoveries on paid claims	**275**	82
Loan to associate[2]	**100**	102
Investment-related receivables	**96**	135
Trade and other debtors	**229**	104
Trade and other receivables	**700**	423
	4,419	4,170

(1) Other than the loan to associates, receivables are non-interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted as the time value of money effect is not material. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets due to the short-term nature of the assets.

(2) This loan is denominated in Malaysian ringgit and has a fixed term of 15 years from 21 September 2012. A cumulative preference dividend of 1% is payable annually. The loan relates to IAG's increased investment in AmGeneral to acquire Kurnia during the financial year ended 30 June 2013.

For further details on the impact from COVID-19 refer to Note 1.2.

B. RECOGNITION AND MEASUREMENT

Trade and other receivables are measured at amortised cost reflecting the net recoverable amounts inclusive of GST. The amounts are discounted where the time value of money effect is material.

On initial recognition of trade and other receivables an assessment of lifetime expected credit losses is performed based on historical credit loss experience adjusted for forward-looking factors specific to the debtors and the economic environment. Amounts are then provided for where required with the impairment charge recognised in profit or loss. These lifetime expected credit losses are then assessed on an ongoing basis. Balances are written off when IAG has stopped pursuing the recovery. If the amount to be written off is greater than the amount provided for, the difference will first be treated as an increase in the provision that is applied against the gross carrying amount. Any subsequent recoveries are credited to profit or loss. The receivables that were written off during the reporting period were insignificant, and therefore there has been no change to the provision for expected credit losses associated with trade and other receivables. Receivables from insurance and reinsurance contracts are not required to be assessed for expected credit losses under *AASB 9*, however amounts are provided for where appropriate. Refer to Note 3.1 for further details.

NOTE 2.7 TRADE AND OTHER PAYABLES

	2020 $m	2019 $m
A. COMPOSITION		
I. Reinsurance premium payable(1)	**1,110**	1,213
II. Trade creditors(2)		
Commissions payable	**243**	269
Stamp duty payable	**135**	132
GST payable on premium receivable	**185**	182
Other	**360**	398
	923	981
III. Other payables(2)		
Other creditors and accruals	**676**	437
Investment creditors	**89**	45
Interest payable on interest-bearing liabilities	**2**	4
	767	486
	2,800	2,680

(1) IAG has a right of offset and settles on a net basis under the 20% quota share agreement with National Indemnity Company, a Berkshire Hathaway (BH) company, and under the combined 12.5% quota share agreements with Munich Re, Swiss Re and Hannover Re. This balance includes reinsurance premium payable to BH of $1,191 million (2019: $1,202 million) and the combined 12.5% quota share agreement counterparties of $757 million (2019: $756 million), which have been offset with receivables due from BH of $775 million (2019: $694 million) and the combined 12.5% quota share agreement counterparties of $420 million (2019: $375 million), respectively. The relevant cash flows pertaining to the contracts have been presented on a gross basis within the cash flow statement.

(2) Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days to 12 months. Amounts have not been discounted because the time value of money effect is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short- term nature of the liabilities.

B. RECOGNITION AND MEASUREMENT

Trade and other payables are stated at the fair value of the consideration to be paid in the future for goods and services received, inclusive of GST. The amounts are discounted where the time value of money effect is material.

3. RISK

SECTION INTRODUCTION

This section provides an overview of IAG's approach to risk and capital management.

IAG is exposed to multiple risks relating to the conduct of its business. IAG does not seek to avoid all risks, but rather to assess them in a systematic, structured and timely manner against IAG's Risk Appetite Statement, delegations, authorities and limits, and seeks to manage them appropriately in alignment with IAG's strategy. Risk management arrangements are designed to reflect the scope, scale and complexity of IAG's activities, and where appropriate, capital is held to support these activities.

IAG uses an enterprise-wide approach to risk that includes the following risk categories:

- Strategic
- Customer
- Insurance
- Reinsurance
- Market
- Credit
- Liquidity
- Capital
- Operational
- Regulatory and compliance
- Culture and conduct

The risk categories, their definition and structured arrangements for their management are included in IAG's Risk Management Strategy (RMS). Risks rarely exist, nor should be considered, in isolation. The interconnectivity of IAG's material risks is understood and managed. Key risks and their potential impact, likelihood, interconnectedness and velocity are considered in IAG's Enterprise Risk Profile (ERP).

NOTE 3.1 RISK AND CAPITAL MANAGEMENT

A. RISK MANAGEMENT OVERVIEW

The Board has responsibility for setting the risk appetite within which it expects management to operate and approves IAG's Risk Appetite Statement and Risk Management Strategy. The Risk Committee assists the Board to discharge its risk management and compliance responsibilities, oversight of risk management, oversight of the implementation and operation of the Group's risk management and governance frameworks and provides advice to the Executives and Board. The Risk Committee also monitors the effectiveness of the Risk Management function. The Group Chief Risk Officer (CRO) oversees risk management practices across IAG. The Group CRO is supported by the Group Risk Function and by other subject matter experts including the Chief Actuary, Chief Underwriting Officer and EGM Capital Markets. The Group CRO provides regular reports to the Risk Committee on the operation of the Risk Management Framework (RMF), the status of material risks, risk and compliance incidents and risk framework changes.

The RMF is in place to assist the Board and senior executive management in managing risk. The RMF is the totality of systems, structures, policies, processes and people within IAG that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk. The RMF supports management by:

- providing a consistent, structured approach to identifying and managing risk across the Group;
- having appropriate policies, procedures and controls in place to effectively manage risks;
- providing meaningful reporting to the Board to make informed business decisions;
- ensuring adequate oversight of the risk profile; and
- facilitating a strong risk culture.

IAG's documented RMS describes the group-wide RMF and how it is implemented, including risk appetite (i.e. the levels, boundaries and nature of risk the organisation is willing to accept), the risk categories used, the major risk management processes, and the roles and responsibilities for managing risk. The RMS is a Board-approved document which directly supports the Group's strategic intent, purpose, values and business sustainability activities. IAG uses Group policies and other supporting documents to help ensure the risk management requirements are clear across IAG. The RMS must be adhered to, along with the legal, regulatory and prudential requirements in all countries in which the organisation has operations.

Other key documents within IAG's RMF include:

- Reinsurance Management Strategy (ReMS), which describes the systems, structures, and processes which collectively ensure IAG's reinsurance arrangements and operations are prudently managed;
- Group Risk Appetite Statement (RAS), which articulates the levels, boundaries and nature of risk the Board is willing to accept in pursuit of IAG's strategic objectives; and
- Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement, which summarises IAG's risk assessment processes for capital management and describes the strategy for maintaining adequate capital over time.

The definitions of the risk categories and related mitigation strategies are set out in the subsequent sections.

Other key documents within IAG, include:

- Group Crisis Management Plan which minimises business impact and loss in the event of a significant incident by providing a clear and organised response strategy supported by pre-defined response procedures; and
- a Recovery Plan, which provides guidance on how IAG might be restored to a sound financial condition following severe financial stress.

COVID-19

The financial and social impacts of COVID-19 continue to emerge and will further develop over the coming year. Their extent and duration are difficult to forecast and remain dependent on many factors. These include the extent to which the virus persists, the efficacy of government and central bank responses (both locally and globally) and the impact prolonged uncertainty has on consumer and business sentiment.

The immediate impacts on IAG have been from market volatility creating lower investment returns, and influencing capital management activities, increases in insurance liabilities across impacted classes of business, the acute effect on the financial position of some of our customers and the adaptation in working practises amongst our employees, business partners and suppliers. As the impacts of the virus and associated responses evolve, so too will the associated risks and IAG is committed to appropriately managing those risks at all levels.

Some of the key specific risks and IAG's response to them are as follows:

- Capital and market risk – At 30 June 2020, IAG had a CET1 multiple of 1.23 (2019: 1.31) and a PCA multiple of 1.97 (2019: 2.12). COVID-19 has given rise to increased levels of market volatility and credit risk (both in the investment portfolio and with our customers and suppliers) that has required a more active capital monitoring approach. Initiatives to achieve this include more frequent assessments of capital adequacy to account for larger, and more rapid, investment market movements and further capital stress testing against COVID-19 related risks. Capital levels will continue to be very closely monitored.
- Regulatory risk – Regulators have been closely engaged on IAG's response to COVID-19. Sector-wide regulatory engagement has also increased, particularly around operational resilience, capital management and dividend policy, and customer impacts. IAG is engaging with its regulators regularly and will continue its aligned and proactive approach to supporting customers, business resilience and continuity measures.
- Customer risk – IAG understands the difficulties many of our customers are facing during this time and the risks this presents to our business. Consequently, a range of support measures have been made available to our personal and small business customers who are experiencing genuine need, including:
  - access to premium reductions;
  - deferred premiums for small business customers;
  - repayment frequency adjustments;
  - reduced excess amounts; and
  - waiving of certain fees and a relaxed cancellation policy.

  These support measures are temporary in nature, but will be reassessed as needed. Additional customer contact centre resources have also been made available to manage the increased number of customers requiring assistance.
- Insurance risk – Refer to the disclosures provided in Note 1.2.
- Operational risk – The rapid migration of the vast majority of IAG employees from an office-based work environment to working from home has heightened some risks. These include technology and cyber-related risk as well as fraud and employee health and wellbeing. While a level of heightened risk in these areas is inevitable in these times, the attendant risks are well understood and policies are in place to manage and mitigate them.

B. STRATEGIC RISK

Strategic risk is defined as the risk that internal or external factors compromise our ability to execute our strategic objectives or our strategy.

Strategic risk is managed by the Group Leadership Team with Board oversight. Key elements that support the management of strategic risk include a rigorous approach to identifying and evaluating key strategic risks and having this process integrated with the Group's strategic planning program, with Management and Board reporting forming part of our ongoing monitoring mechanisms. IAG implements active portfolio management of its insurance operations. This involves robust and regular review of the portfolios that leads to informed decisions on the allocation of assets in the most efficient and value-accretive way in order to achieve IAG's strategic objectives. Consideration of both current and future value is critical in the process. Portfolio management can involve the acquisition or divestment of other entities, for which IAG has implemented a merger and acquisitions framework to help ensure the associated risks are appropriately managed. Strategic risk mitigation is further enhanced by the accountabilities of the Strategy and Innovation function. This function ensures IAG is accessing data-driven customer insights and reacting to such through the innovation of products and services.

C. CUSTOMER RISK

Customer risk is defined as the risk of failing to meet customer expectations leading to lower customer satisfaction, retention rates and new business opportunities.

IAG is committed to delivering positive customer experiences and value through the provision of products and services suited to our customers' needs.

IAG manages customer risk by applying a customer lens to all processes and maintaining our customers at the heart of everything we do. Dedicated forums such as the Consumer Advisory Board and the Group Customer Conduct Council are designed to capture, analyse and use customer feedback to enhance our products, services and propositions.

D. INSURANCE RISK

Insurance risk is the risk of loss as a result of:

- inadequate or inappropriate underwriting or product pricing;
- unforeseen, unknown or unintended liabilities that may eventuate;
- inadequate or inappropriate claims management including reserving; and
- insurance concentration risk (i.e. by locality, segment factor, or distribution).

A fundamental part of IAG's overall risk management approach is the effective governance and management of the risks that affect the amount, timing and certainty of cash flows arising from insurance contracts. The level of insurance risk accepted by IAG is formally documented in its Business Division Licences, which are issued to each operating division. The Business Division Licence is prepared by the Group Chief Underwriting Officer in consultation with the customer-facing divisions and is approved by the Group CEO. The Business Division Licences are reviewed annually or more frequently if required. In addition to Business Division Licences, insurance risk is also managed through the implementation of the Insurance Risk Framework and supporting Insurance Risk Principles.

I. Acceptance and pricing of risk

IAG focusses on the sustainability of its underwriting risk profile, rather than a premium volume or market share oriented approach. IAG believes this approach provides the greatest long-term likelihood of being able to meet the objectives of all stakeholders, including policyholders, regulators and shareholders. Underwriting and pricing expertise, coupled with data and analytics capability, allow IAG to underwrite policies in the context of its risk appetite.

The underwriting by IAG of large numbers of less than fully correlated individual risks, predominantly short-tail business, across a range of classes of insurance business in different regions reduces the variability in overall claims experience over time. A risk still remains that the actual amount of claims paid is different to the amount estimated at the time an insurance product was designed and priced. IAG's claims management and provisioning, reinsurance and capital management further mitigate the impact of this risk.

As referenced above, business divisions are required to underwrite within set criteria as outlined in the Business Division Licence. Maximum limits are set for the acceptance of risk both on an individual insurance contract basis and for classes of business and specific risk groupings.

Management information systems are maintained to provide up-to-date, reliable data on the risks to which the business is exposed at any point in time. Statistical models that combine historical and projected data (pricing, claims and market conditions) are used to calculate premiums and monitor claim patterns for each class of business.

II. Claims management and provisioning

Once an incident has occurred, initial claim estimates are managed by claims officers with the requisite degree of experience and competence with the assistance, where appropriate, of a loss adjustor or other party with specialist knowledge of specific incidents. These case estimates are used to form part of the basis of the claim provisions. It is IAG's intention to respond to and settle all valid claims quickly whenever possible and to pay claims fairly, based on policyholders' full entitlements.

Claim provisions are established using actuarial valuation models, including a risk margin to cover inherent uncertainty in the ultimate cost of claims, to ensure adequate capital is allocated to settle claims that have occurred. Refer to Note 2.2 for further details.

III. Concentrations of insurance risk

Each year IAG sets its tolerance for concentration risk through the use of various models to estimate its maximum exposure to potential natural disasters and other catastrophes. IAG mitigates its exposure to concentrations of insurance risk by holding a portfolio diversified into many classes of business across different regions and by the utilisation of reinsurance, taking into account the cost of reinsurance and capital efficiency. The reinsurance cover limits IAG's financial exposure to a single event with a given probability, and also protects capital. The catastrophe reinsurance cover purchased affects the Insurance Concentration Risk Charge (ICRC) in the APRA capital calculation.

Concentration risk is particularly relevant in the case of catastrophes, usually natural disasters including earthquakes, bushfires, hailstorms, tropical storms and high winds, which generally result in a concentration of policyholders being impacted by the same event. This aggregation of multiple claims arising from a single event creates the most material insurance loss potential in the Group. IAG is also exposed to certain large man-made catastrophic events such as industrial accidents and building fires. Catastrophe losses are an inherent risk of the general insurance industry that contribute to potentially material year-to-year fluctuations in the results of operations and financial position. The nature and level of catastrophes in any period cannot be predicted accurately but can be estimated through the utilisation of predictive models. IAG actively monitors its aggregate exposure to catastrophe losses in all regions and limits exposure in regions that are subject to high levels of natural perils. Specific processes for monitoring identified key concentrations are set out below:

RISK	SOURCE OF CONCENTRATION	RISK MANAGEMENT MEASURES
An accumulation of risks arising from a natural peril/catastrophe	Insured property concentrations	Accumulation risk modelling and reinsurance protection
A large property loss	Fire or accident affecting one building or a group of adjacent buildings	Maximum per risk acceptance limits, property risk grading and reinsurance protection
Multiple liability retentions being involved in the same event	Response by a multitude of policies to the one event	Purchase of reinsurance clash protection

The table below provide an analysis of gross written premium from continuing operations by both region and product, which demonstrates the diversity of IAG's operations and its relatively limited exposure to additional risks associated with long-tail classes of business (where there is increased uncertainty of the ultimate cost of claims due to the additional period of time to settlement):

GROSS WRITTEN PREMIUM ANALYSIS	**2020**	2019
	%	%
a. REGION		
Australia	**77**	78
New Zealand	**23**	22
	100	100
b. PRODUCT		
Motor	**33**	32
Home	**29**	29
Short-tail commercial	**22**	22
Compulsory Third Party (motor liability)	**6**	7
Liability	**6**	6
Workers' compensation	**3**	3
Other short-tail	**1**	1
	100	100

E. REINSURANCE RISK

Reinsurance risk is the risk of:

- lack of capacity in the reinsurance market;
- insufficient or inappropriate reinsurance coverage;
- inadequate underwriting and/or pricing of reinsurance exposures retained by IAG’s reinsurance captives;
- inadequate or inappropriate reinsurance recovery management;
- reinsurance arrangements not being legally binding; and
- reinsurance concentration.

IAG's reinsurance program is an important part of its overall approach to risk and capital management. It is used to limit exposure to large single claims as well as an accumulation of claims that arise from the same or similar events in order to stabilise earnings and protect capital resources. The Reinsurance Management Strategy outlines IAG's reinsurance principles, including the requirement that reinsurance retention for catastrophe must not exceed 4% of gross earned premium.

In practice IAG purchases catastrophe reinsurance protection to at least the greater of:

- APRA's prescribed minimum approach of 1-in-200 year return period loss calculated on a whole-of-portfolio, all perils basis in Australia;
- a 1-in-250 year return period for earthquake loss calculated on a whole-of-portfolio, earthquake only basis in Australia; and
- a 1-in-1000 year return period for earthquake loss calculated on a whole-of-portfolio, earthquake only basis in New Zealand.

Catastrophe model output is not the sole determinant of the amount of reinsurance purchased. Other factors such as loss experience, anticipated portfolio changes and the market pricing of reinsurance are also considered.

Dynamic financial analysis modelling is used to determine the optimal level at which reinsurance should be purchased for capital efficiency, compared with the cost and benefits of covers available in the reinsurance market.

The amount of reinsurance purchased is determined by reference to the modelled Probable Maximum Loss (PML). Natural perils are inherently uncertain, which presents model risk. As a result, the loss from an actual event could exceed the modelled PML.

To facilitate the reinsurance process, manage counterparty exposure and create economies of scale, IAG has established a centralised reinsurance model across its operations. This is via captive reinsurance entities in Singapore and Labuan, Malaysia and a reinsurance department (or virtual captive) in Australia, collectively referred to as IAG Reinsurance. IAG Reinsurance acts as the interface between the external providers of reinsurance capital and the operating business divisions.

The use of reinsurance introduces credit risk. The management of credit risk includes the monitoring of reinsurers' credit ratings and controlling total exposures to limit counterparty default risk which is further explained in the financial risk section. IAG adopts a sound underwriting approach to the reinsurance program through the expertise provided by IAG Reinsurance. Retained exposures sit within the Board risk appetite and appropriate capital is maintained.

I. Current reinsurance program

The external reinsurance program consists of a combination of the following reinsurance arrangements:

- 32.5% whole-of-account quota share arrangements;
- a Group catastrophe reinsurance protection that runs to a calendar year and operates on an excess of loss basis, with IAG retaining the first $250 million ($169 million post-quota share) of each loss. It covers all territories in which IAG operates. The limit of catastrophe cover purchased effective 1 January 2020 was $9.75 billion placed to 67.5% (i.e. net of the whole-of-account quota share). Should a loss event occur that is greater than $10 billion, IAG could potentially incur a net loss greater than the retention stated above. IAG holds capital to mitigate the impact of this possibility;
- aggregate sideways covers that protect against a frequency of attritional event losses in Australia, New Zealand and Asia, and operates below the Group catastrophe cover;
- excess of loss reinsurances which provide 'per risk' protection for retained exposures of the commercial property and engineering businesses in Australia, New Zealand and Asia;
- excess of loss reinsurance for all casualty portfolios including Compulsory Third Party (CTP), public liability, professional indemnity directors and officers, workers' compensation and home owners warranty products;
- quota share reinsurance protection for cyber;
- excess of loss reinsurance for all marine portfolios;
- excess of loss reinsurance cover (stop loss) for retained natural peril losses;
- quota share and stop loss reinsurance for crop;
- adverse development cover (ADC) and quota share protection for the CTP portfolio;
- ADC for the February 2011 Canterbury earthquake event; and
- ADC for policies issued prior to 31 December 2015 covering IAG's exposure to claims arising from legacy general liability and/or workers' compensation/employer's liability policies, primarily related to asbestos.

F. MARKET, CREDIT, LIQUIDITY AND CAPITAL RISK

Key aspects of the processes established by IAG to monitor and mitigate these risks include:

- reporting to the Board Risk and Audit Committees with Non-Executive Directors as members;
- the Group Leadership Team Risk Committee comprising of all Group Executives;
- the Asset and Liability Committee (ALCo) comprising key Executives with relevant oversight responsibilities;
- value-at-risk analysis and position limits which are regularly monitored;
- monthly stress testing which is undertaken to estimate the impact of adverse market movements;
- maintenance of an approved Group Credit Risk Policy, Group Liquidity Policy, Group Foreign Exchange Policy and Group Investment Policy;
- Board-approved Strategic Asset Allocation setting out the overall structure of the investment strategy – asset classes, ranges on asset class exposures and broad limits on active management such as duration limits;
- capital management activities – for further details refer to the capital management section (IV) of this note; and
- implementation of a Derivatives Risk Management Statement that considers the controls in the use of derivatives and sets out the permissible use of derivatives in relation to investment strategies.

I. Market risk

Market risk is defined as the risk of adverse movements in market prices (equities, derivatives, interest rates, foreign exchange, etc) or inappropriate concentration within the investment funds.

a. FOREIGN EXCHANGE RISK

IAG operates internationally and is exposed to foreign exchange risk from various activities conducted in the normal course of business. Foreign exchange exposure is managed by the IAG Capital Markets function.

The key foreign exchange risk exposures arise from the fluctuation in spot exchange rates between the items denominated in currency other than the Group's functional currency (Australian dollar), which causes the amount of the items to vary. Mitigation strategies are set out below:

EXPOSURE	RISK MANAGEMENT MEASURES
Net investment in foreign operations that have a functional currency other than the Australian dollar (translation of financial position recognised directly in equity and translation of financial performance recognised in profit or loss).	Designated hedging instruments – forward foreign exchange contracts (derivatives).
Interest-bearing liabilities denominated in currencies other than the Australian dollar.	Some designated as hedging instruments where the currency matches the functional currency of investments in foreign operations.
Insurance liabilities denominated in currencies other than the Australian dollar (directly recognised in profit or loss).	Some assets backing technical reserves are held in the same currency as the related insurance liabilities, mitigating any net foreign exchange exposure.
Investments denominated in currencies other than the Australian dollar (directly recognised in profit or loss).	Designated economic hedging instruments – forward foreign exchange contracts (derivatives).

When all relevant criteria are met, the designated hedging instruments noted above will effectively reduce the impact of foreign exchange gains and losses recorded in the foreign currency translation reserve during the period. The Group adopts a policy of targeting between 50% and 100% of the foreign exchange risk exposures associated with net investments in foreign operations (excluding intangible assets for consolidated entities) through designated hedging instruments. For the foreign exchange risk on its investment portfolio, the Group adopts a policy to target a 100% economic hedge.

The table below provides information regarding the impact on the measurement of net investments in foreign operations held at reporting date of an instantaneous 10% depreciation of the Australian dollar compared with selected currencies on equity, net of related derivatives. An appreciation of the Australian dollar would broadly have the opposite impact.

IMPACT OF 10% DEPRECIATION OF AUSTRALIAN DOLLAR	**2020**	2019
	$m	$m
	Impact directly to equity	Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	**83**	56
Malaysian ringgit	**4**	13
Other currencies where considered significant	**-**	8
	87	77

The sensitivity analysis demonstrates the effect of a change in one key assumption while other assumptions remain unchanged (isolated exchange rate movements).

b. PRICE RISK

IAG has exposure to equity price risk through its investments in equities (both directly and through certain trusts), debt/equity hybrids, hedge funds and the use of derivative contracts. The impact on the measurement of the investments held at reporting date of a change in broad equity markets by +10% or -10% on profit before tax, net of related derivatives, is shown in the table below:

IMPACT OF CHANGE IN EQUITY VALUE		**2020**	2019
		$m	$m
		Impact to profit	Impact to profit
Investments – equity, debt/equity hybrids and trust securities and related equity derivatives	+10%	**41**	90
	-10%	**(40)**	(88)

Investments in equities, debt/equity hybrids, trust securities and related equity derivatives are all measured at fair value through profit or loss. There is no direct impact of a change in market prices on equity.

c. INTEREST RATE RISK

Fixed interest rate assets and liabilities are exposed to changes in market value derived from mark-to-market revaluations. Financial assets and liabilities with floating interest rates create cash flow variability.

IAG's interest rate risk arises primarily from fluctuations in the valuation of investments in fixed interest-bearing securities recognised at fair value and from the underwriting of general insurance contracts, which creates exposure to the risk that interest rate movements materially impact the fair value of the insurance liabilities (the insurance liabilities are discounted with reference to the government yields). Movements in interest rates should have minimal impact on the insurance profit or loss due to IAG's policy of investing in assets backing insurance liabilities principally in fixed interest securities that are closely matched to the duration of the insurance liabilities (period to settlement). Therefore, movements in the fair value measurement of the assets broadly offset the impact of movements in the insurance liabilities from changes in interest rates.

The impact on the measurement of investments in fixed interest-bearing securities held at reporting date of a change in interest rates by +1% or -1% on profit before tax, net of related derivatives, is shown in the following table. The sensitivity analysis provided demonstrates the effect of a change in interest rates only, whilst other assumptions remain unchanged. As investments in fixed interest-bearing securities are measured at fair value through profit or loss, there is no direct impact from an interest rate change on equity.

IMPACT OF CHANGE IN INTEREST RATES		**2020**	2019
		$m	$m
		Impact to profit	Impact to profit
Investments – interest-bearing securities and related interest rate derivatives	+1%	**(144)**	(133)
	-1%	**150**	141

Refer to Note 2.2 for details of the impact on the net outstanding claims liabilities before income tax to changes in key actuarial assumptions, including movements in discount rates.

II. Credit risk

Credit risk is defined as the risk arising from a counterparty's failure to meet its obligations in accordance with agreed terms. These include investment and derivative counterparties, reinsurers and premium debtors.

Concentrations of credit risk exist where a number of counterparties have similar economic characteristics. IAG's credit risk arises predominantly from investment activities, reinsurance activities, premium debtors, over-the-counter derivatives (currency forwards) and dealings with other intermediaries. IAG maintains a credit risk appetite, which is approved by the Board, and a Group Credit Risk Policy that is consistent with the Board's risk appetite. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout IAG, with the Capital Markets function responsible for implementation. IAG maintains sufficiently diverse credit exposures which also assists in avoiding a concentration charge being added to the regulatory capital requirement.

For the in-scope receivable balances, maximum exposure to credit risk is considered on initial measurement of the asset, where lifetime expected credit losses are taken into account and provided for where required. Refer to Note 2.6 for further details.

a. INVESTMENTS

IAG is exposed to credit risk from investments in third parties, for example debt or similar securities issued by those companies. The maximum exposure to credit risk loss as at reporting date is the carrying amount of the investments on the balance sheet as they are measured at fair value. At the reporting date, there are material concentrations of credit risk to the banking sector, in particular the four major Australian banks. The credit risk relating to investments is regularly monitored and assessed, with maximum exposures limited by reference to credit rating and counterparty. Sovereign securities denominated in the functional currency are considered risk free and are unconstrained. The assets backing insurance liabilities of $5,789 million (2019: $5,950 million) include predominantly high credit quality investments, such as government securities and other investment grade securities, which reduce the risk of default.

The following table provides information regarding the credit risk relating to the interest-bearing investments based on Standard & Poor's counterparty credit ratings, which demonstrates the very strong overall credit quality of IAG's investment book:

CREDIT RATING OF INTEREST-BEARING INVESTMENTS	**2020**	2019
	$m	$m
AAA	**3,924**	3,288
AA	**3,880**	3,626
A	**108**	250
BBB	**490**	886
Below BBB and unrated	**542**	654
	8,944	8,704

b. REINSURANCE RECOVERIES ON PAID CLAIMS

Reinsurance arrangements mitigate insurance risk but expose IAG to credit risk. Reinsurance is placed with counterparties (primarily reinsurance companies) based on an evaluation of their financial strength, terms of coverage and price. At the reporting date, there are material concentrations of credit risk in relation to reinsurance recoverables, in particular to large global reinsurers. IAG has clearly defined policies for the approval and management of credit risk in relation to reinsurers. IAG monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews the reinsurers' ability to fulfil their obligations under respective existing and future reinsurance contracts. Some of the reinsurers are domiciled outside the jurisdictions in which IAG operates, so there is the potential for additional risk such as country risk and transfer risk.

It is IAG policy to only deal with reinsurers with credit ratings of at least Standard & Poor's BBB+ (or other rating agency equivalent) without collateralisation, other than a mandatory placement to meet local regulatory requirements. Where the credit rating of a reinsurer falls below the required quality during the period of risk a contractual right to replace the counterparty exists. Some of the reinsurance protection is purchased on a 'collateralised' basis, where counterparties either deposit funds equivalent to their participation (trust or loss deposits) or provide other forms of collateral (letters of credit).

The following table provides IAG's exposure to reinsurance recoveries receivable on the outstanding claims balance, excluding other recoveries, by counterparty credit rating (Standard & Poor's) and the secured collateral:

CREDIT RATING OF REINSURANCE RECOVERIES ON OUTSTANDING CLAIMS	**2020**		2019	
	$m	**% of total**	$m	% of total
AA	**4,439**	**91**	4,081	90
A	**458**	**9**	470	10
BBB and below	**5**	**-**	6	-
Total	**4,902**	**100**	4,557	100

Of these, approximately $1,891 million (2019: $1,128 million) is secured directly as follows, reducing the credit risk:

- deposits held in trust: $435 million (2019: $82 million);
- letters of credit: $1,456 million (2019: $1,045 million); and
- loss deposits: nil (2019: $1 million).

An ageing analysis for reinsurance recoveries on paid claims is provided below:

	NOT OVERDUE		OVERDUE		TOTAL
		<30 days	30-120 days	>120 days	
	$m	$m	$m	$m	$m
2020					
Reinsurance recoveries on paid claims	**250**	**7**	**9**	**9**	**275**
2019					
Reinsurance recoveries on paid claims	76	1	3	2	82

c. PREMIUM RECEIVABLE

The majority of the premium receivable balance relates to policies which are paid on a monthly instalment basis. The late payment of amounts due under such arrangements allows for the cancellation of the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts. Upon cancellation of a policy the outstanding premium receivable and revenue is reversed. IAG is also exposed to the credit risk associated with brokers and other intermediaries when premium is collected via these intermediaries. IAG's exposure is regularly monitored by ALCo with reference to aggregated exposure, credit rating, internal credit limits and ageing of receivables by counterparty. Ageing analysis for premium receivable is provided below, with amounts aged according to their original due date, demonstrating IAG's limited exposure:

	NOT OVERDUE		OVERDUE		TOTAL
		<30 days	30-120 days	>120 days	
	$m	$m	$m	$m	$m
2020					
Premium receivable	**3,160**	**265**	**300**	**38**	**3,763**
Provision for impairment	**(5)**	**(3)**	**(10)**	**(26)**	**(44)**
	3,155	**262**	**290**	**12**	**3,719**
2019					
Premium receivable	3,152	276	295	61	3,784
Provision for impairment	(3)	(3)	(8)	(23)	(37)
	3,149	273	287	38	3,747

III. Liquidity risk

Liquidity risk arises where liabilities cannot be met as they fall due as a result of insufficient funds and/or illiquid asset portfolios. IAG's liquidity position is derived from operating cash flows, access to liquidity through related bodies corporate and interest-bearing liabilities (with some denominated in different currencies and with different maturities). IAG complies with its liquidity risk management practices, which include a Group policy, and has the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

a. OUTSTANDING CLAIMS LIABILITY AND INVESTMENTS

Underwriting insurance contracts exposes IAG to liquidity risk through the obligation to make payment for claims of unknown amounts on unknown dates. The assets backing insurance liabilities can generally be readily sold or exchanged for cash to settle claims and are managed in accordance with the policy of broadly matching the overall maturity profile to the estimated pattern of claim payments.

A maturity analysis is provided below of the estimated net discounted outstanding claims liability (based on the remaining term to payment at the reporting date) and the investments that have a fixed term (provided by expected maturity). The timing of future claim payments is inherently uncertain. Actual maturities may differ from expected maturities because certain counterparties have the right to call or prepay certain obligations with or without penalties.

MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY		INVESTMENTS	
	2020	2019	**2020**	2019
	$m	$m	**$m**	$m
At call	**-**	-	**2,273**	1,399
Within 1 year or less	**2,284**	2,212	**1,035**	1,073
Within 1 to 2 years	**754**	726	**1,036**	165
Within 2 to 5 years	**1,047**	1,111	**1,951**	2,460
Over 5 years	**430**	468	**2,649**	3,607
Total	**4,515**	4,517	**8,944**	8,704

b. INTEREST-BEARING LIABILITIES

The following table provides information about the residual maturity periods of the interest-bearing liabilities of a capital nature based on the contractual maturity dates of cash flows:

	CARRYING VALUE	MATURITY DATES OF CONTRACTUAL UNDISCOUNTED CASH FLOWS					
		Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Perpetual	Total
	$m	$m	$m	$m	$m	$m	$m
2020							
Principal repayments(1)	**1,531**	**-**	**-**	**-**	**1,127**	**404**	**1,531**
Contractual interest payments(1)		**55**	**55**	**165**	**-**	**-**	**275**
Total contractual undiscounted payments		**55**	**55**	**165**	**1,127**	**404**	**1,806**
2019							
Principal repayments(1)	2,089	-	-	-	1,135	954	2,089
Contractual interest payments(1)		83	83	249	-	-	415
Total contractual undiscounted payments		83	83	249	1,135	954	2,504

(1) All of the liabilities have call, reset or conversion dates which occur prior to any contractual maturity. Detailed descriptions of the instruments are provided in Note 4.1. The contractual interest payments are undiscounted and calculated based on underlying fixed interest rates or prevailing market floating rates as applicable at the reporting date. Interest payments have not been included beyond five years.

IV. Capital risk

Capital risk is defined as the risk that capital is insufficient or not of the best form (the mix of debt, equity and reinsurance is inappropriate) given the nature, strategies and objectives of the Group. IAG's capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the objective of maintaining an appropriate level of capital to protect policyholders' and lenders' interests, and meet regulatory requirements.

IAG has a documented description of the capital management process (Internal Capital Adequacy Assessment Process (ICAAP)) and reports annually on its operation to the Board, together with a forward-looking estimate of expected capital utilisation (as represented in IAG's Capital Plan) and capital resilience (ICAAP Annual Report). The adequacy of IAG's capital position is judged relative to the Board's Capital RAS, with an Internal Capital Model (ICM) used to assess the risks of breaching the minimum levels established in the Capital RAS. Scenario analysis and stress testing are important adjuncts to the ICM. The amount of capital required varies according to a range of factors including the business underwritten, extent of reinsurance and investment asset allocation.

The target level of capitalisation (risk appetite) for IAG is assessed by consideration of factors including:

- the probability of insolvency over the next three years;
- the probability of falling below the APRA Prescribed Capital Amount (PCA) over the next three years;
- other stakeholder perspectives on capitalisation, including rating agency capital models and associated ratings; and
- domestic and international levels of capitalisation.

a. REGULATORY CAPITAL

All insurers within IAG that carry on insurance business in Australia are registered with APRA and are subject to APRA's Prudential Standards. It is IAG's policy to ensure that each of the licenced insurers in the Group maintains an adequate capital position.

IAG's long-term target capital ranges are set out below:

- a Common Equity Tier 1 capital of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of a minimum of 0.6 times; and
- a total regulatory capital position equivalent to 1.6 to 1.8 times the PCA, compared to a regulatory requirement of a minimum of 1.0 times.

Internal policies are in place to ensure any significant deviations from the benchmarks are considered by the Board as to how any shortfall should be made good, or any surplus utilised or maintained.

IAG uses the standardised framework detailed in the relevant prudential standards (APRA Level 2 Insurance Group requirements) to calculate regulatory capital.

REGULATORY CAPITAL POSITION	**2020** **$m**	2019 $m
Common Equity Tier 1 capital (CET1 capital)	**2,567**	3,082
Additional Tier 1 capital	**404**	569
Total Tier 1 capital	**2,971**	3,651
Tier 2 capital	**1,127**	1,330
Total regulatory capital	**4,098**	4,981
Total PCA	**2,082**	2,354
PCA multiple	**1.97**	2.12
CET1 multiple	**1.23**	1.31

At 30 June 2020, IAG's Insurance Concentration Risk Charge from a catastrophe event was $169 million (2019: $169 million).

Consideration is given to the operational capital needs of the business. Targeting a capital multiple above the minimum regulatory requirement aims to ensure the ongoing strength and security of IAG, while suitably protecting policyholders and lenders.

IAG's capital objectives are achieved through dynamic management of the balance sheet and capital mix, the use of a risk-based capital adequacy framework that relies on explicit quantification of uncertainty or risk and the use of modelling techniques that provide the capacity to understand the risk/return trade-off as well as valuable inputs to the capital management process. The influences on capital, such as product mix, reinsurance program design, catastrophe exposure, investment strategy, profit margins and capital structure, are all assessed using dynamic financial analysis modelling.

An important influence on IAG's capital level is the payment of dividends. IAG targets a dividend payout ratio, measured as a proportion of cash earnings, within a range approved by the Board (refer to Note 4.4).

b. CAPITAL COMPOSITION

The consolidated balance sheet capital mix at reporting date is shown in the table below:

CAPITAL MIX	TARGET	2020	2019
	%	%	%
Ordinary equity less goodwill and intangible assets	**60-70**	**67.8**	63.5
Interest-bearing liabilities – hybrid securities and debt	**30-40**	**32.2**	36.5
Total capitalisation		**100.0**	100.0

G. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from the actions or behaviours of people, inadequate or failed processes and systems or from external events.

When controls fail, an operational risk incident can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. IAG manages these risks by initiating an appropriate control framework and by monitoring and managing potential risks. The Risk Committee is responsible for oversight of the operational risk framework and approval of the Operational Risk Management Policy, and any changes to it. The Board and Group Leadership Team believe an effective, documented and structured approach to operational risk is a key part of the broader RMF that is outlined in IAG's RMS.

The operational risk framework and supporting Operational Risk Policy and procedures aim to ensure that consistent governance mechanisms and practices are in place, and that activities undertaken which involve operational risk are assessed and managed with appropriate regard to the Group's RAS and the achievement of IAG's objectives. The operational risk framework is supported by aligned frameworks, policies, standards and procedures for key aspects of operational risk. For example, fraud and business continuity frameworks and policies and procedures are in place, as are various other operational risk policies.

Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.

H. REGULATORY AND COMPLIANCE RISK

Regulatory and Compliance Risk is defined as the risk of legal, regulatory or reputational impacts arising from failure to manage compliance obligations, or failure to anticipate and prepare for changes in the regulatory environment. IAG engages with regulators and regularly monitors developments in regulatory requirements to support ongoing compliance. In recent times, the Group has observed an increase in the frequency and scale of regulatory reviews, particularly in relation to financial services entities in Australia and New Zealand.

IAG remains focused on implementing the Australian Government’s legislative change agenda flowing from the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission).

I. CULTURE AND CONDUCT RISK

Culture and conduct risk is defined as the risk that employee behaviours are contrary to our Purpose, our Spirit or our Code of Ethics and Conduct or do not otherwise meet reasonable community expectations.

IAG’s strategic objective is to be a customer centric organisation underpinned by ethical and sustainable decision-making. IAG recognises that the mindsets and behaviours of our people will help achieve our objectives and that a culture clearly aligned with our desired outcomes is fundamental to our success in building a stronger future for IAG and its stakeholders.

IAG continues to be committed to building and maintaining a strong risk culture. IAG is focused on aligning risk culture, organisational culture and conduct risk and underpinning this with the embedment of Group-wide accountability, reward and recognition programs. Both organisational and risk culture are measured, monitored and reported regularly to the GLT Risk Committee, People and Remuneration Committee and Board Risk Committee respectively. Risk specific behaviours are aligned to IAG's Code of Conduct and Ethics and the Group continues to strengthen its articulation of risk behaviours.

4. CAPITAL STRUCTURE

SECTION INTRODUCTION

This section provides disclosures on the capital structure of IAG, which demonstrates how IAG finances its overall operations and growth through the use of different sources of funds, including ordinary equity and debt and hybrid instruments. Reinsurance is also an increasingly important source of long-term capital for IAG – reinsurance-specific disclosures are included in section 2 insurance disclosures.

The capital that IAG maintains provides financial security to its policyholders, whilst ensuring adherence to the capital adequacy requirements of industry regulators. IAG also seeks to maintain, and where possible enhance, the overall diversity and efficiency of its capital structure to support the delivery of targeted returns to shareholders. IAG measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with both regulatory and rating agency models. IAG's target is a capital mix of ordinary equity (net of goodwill and intangibles) at 60-70% and debt and hybrids at 30-40%.

NOTE 4.1 INTEREST-BEARING LIABILITIES

Final Maturity Date	Principal Amount	Section	**2020** Carrying Value $m	**2020** Fair Value $m	2019 Carrying Value $m	2019 Fair Value $m
A. COMPOSITION						
I. Capital nature[1]						
a. ADDITIONAL TIER 1 REGULATORY CAPITAL[2]						
Reset exchangeable securities						
No fixed date	$550 million	B. I	**-**	**-**	550	558
Capital notes						
No fixed date	$404 million	B. II	**404**	**418**	404	432
b. TIER 2 REGULATORY CAPITAL						
AUD subordinated convertible term notes						
15 June 2044	$350 million	B. III	**350**	**344**	350	352
15 June 2045	$450 million	B. IV	**450**	**443**	450	457
			800		800	
NZD subordinated convertible term notes[3]						
15 June 2043	NZ$350 million	B. V	**327**	**344**	335	355
II. Operational nature						
Other interest-bearing liabilities			**2**	**2**	3	3
Less: capitalised transaction costs			**(7)**		(12)	
			1,526		2,080	

(1) For 2019, capital instruments above cannot be reconciled to the regulatory capital section of Note 3.1 due to APRA transitional arrangements.

(2) Instruments issued prior to 1 January 2013 are eligible for inclusion in the relevant category of regulatory capital up to limits prescribed by APRA under transitional arrangements. Any capital that is ineligible to be included in Tier 1 capital as a consequence may be included in Tier 2 capital to the extent there is residual capacity within Tier 2 transitional limits. Following the redemption of reset exchangeable securities during 2020, IAG no longer has any securities on issue which are under APRA's transitional arrangement.

(3) At the reporting date, the Company recognised accrued interest of $1 million (2019: $1 million) which is presented within trade and other payables.

B. SIGNIFICANT TERMS AND CONDITIONS

I. Reset exchangeable securities (RES)

On 16 December 2019, IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of the Company redeemed all outstanding reset exchangeable securities at their face value of $550 million.

II. Capital notes

- face value of $404 million and issued by the Company on 22 December 2016;
- all remain outstanding as at the reporting date;
- non-cumulative floating rate distribution payable quarterly;
- distribution rate equals the sum of the three-month BBSW plus a margin of 4.70% per annum multiplied by (1-tax rate);
- if the distributions are not fully franked, the distribution rate is increased to compensate holders for the unfranked portion of the distribution, subject to no payment conditions existing;
- payments of distributions can only be made subject to meeting certain conditions. If no distribution is made, no dividends can be paid and no returns of capital can be made on ordinary shares until the next distribution payment date;
- IAG may convert, redeem or resell capital notes on 15 June 2023, or upon occurrence of certain events, subject to APRA approval;
- the capital notes are scheduled for conversion into a variable number of ordinary shares of the Company (subject to a maximum number of 140.6 million shares) on 16 June 2025 and at each subsequent distribution payment date provided the mandatory conversion conditions are satisfied; and
- the capital notes must be converted into a variable number of IAG ordinary shares (subject to a maximum of 351.1 million shares) or written-off if APRA determines the Company to be non-viable.

III. AUD subordinated convertible term notes due 2044

- face value of $350 million and issued by the Company on 29 March 2018;
- all remain outstanding as at the reporting date;
- floating interest rate equal to the three-month BBSW plus a margin of 2.10% per annum is payable quarterly;
- the notes mature on 15 June 2044 unless converted or redeemed earlier, subject to rights of conversion or redemption;
- IAG has an option to redeem the notes at face value between 15 June 2024 and 15 June 2025 and for certain tax and regulatory events (in each case subject to APRA's prior written approval);
- the notes can be converted into a variable number of ordinary shares of the Company (subject to a maximum of 88.7 million shares) at the option of holders from and including 15 June 2027 and at each subsequent interest payment date and the maturity date of 15 June 2044; and
- the notes must be converted into a variable number of ordinary shares of the Company (subject to a maximum of 221.8 million shares) or written-off if APRA determines the Company to be non-viable.

IV. AUD subordinated convertible term notes due 2045

- face value of $450 million and issued by the Company on 28 March 2019;
- all remain outstanding as at the reporting date;
- floating interest rate equal to the three-month BBSW plus a margin of 2.35% per annum is payable quarterly;
- the notes mature on 15 June 2045 unless converted or redeemed earlier, subject to rights of conversion or redemption;
- IAG has an option to redeem the notes at face value between 15 June 2025 and 15 June 2026 and for certain tax and regulatory events (in each case subject to APRA's prior written approval);
- the notes can be converted into a variable number of ordinary shares of the Company (subject to a maximum of 116.7 million shares) at the option of holders from and including 15 June 2028 and at each subsequent interest payment date and the maturity date of 15 June 2045; and
- the notes must be converted into a variable number of ordinary shares of the Company (subject to a maximum of 291.8 million shares) or written-off if APRA determines the Company to be non-viable.

V. NZD subordinated convertible term notes

- face value of NZ$350 million (equivalent to $332 million at date of issue) and issued by the Company on 15 June 2016;
- all remain outstanding as at the reporting date;
- fixed interest rate of 5.15% per annum, payable quarterly;
- the notes mature on 15 June 2043 unless converted or redeemed earlier, subject to rights of conversion or redemption;
- IAG has an option to redeem the notes at face value between 15 June 2022 and 15 June 2023, and for certain tax and regulatory events (in each case subject to APRA's prior written approval);
- if the notes are not redeemed on 15 June 2022, the interest rate will become the applicable three-month bank bill benchmark rate (BKBM) plus a margin of 2.60% per annum;
- the notes can be converted into a variable number of ordinary shares of the Company (subject to a maximum of 114.0 million shares) at the option of holders from and including 15 June 2025 and at each subsequent interest payment date and the maturity date of 15 June 2043; and
- the notes must be converted into a variable number of ordinary shares of the Company (subject to a maximum of 284.9 million shares) or written-off if APRA determines the Company to be non-viable.

C. RECOGNITION AND MEASUREMENT

The interest-bearing liabilities are initially measured at fair value (net of transaction costs) and subsequently measured at amortised cost. Based on market conditions at any point in time, the carrying value of the liabilities may not be representative of the fair value of the liabilities.

The fair value for all interest-bearing liabilities is calculated using their quoted market price in active markets (fair value hierarchy level 1), except for the AUD subordinated convertible notes where their fair value is calculated using their quoted market price in a market that is considered to be lacking sufficient depth to be considered active (fair value hierarchy level 2).

NOTE 4.2 EQUITY

	2020 Number of shares in millions	2019 Number of shares in millions	2020 $m	2019 $m
A. SHARE CAPITAL				
Balance at the beginning of the financial year	**2,311**	2,367	**6,617**	7,082
Capital return and share consolidation, including transaction costs	**-**	(56)	**-**	(465)
Balance at the end of the financial year	**2,311**	2,311	**6,617**	6,617

B. STRATEGIC RELATIONSHIP WITH BERKSHIRE HATHAWAY (BH)

As part of the strategic relationship with BH, the Company and National Indemnity Company (NICO), a wholly-owned subsidiary of BH, entered into a subscription agreement dated 16 June 2015 (Subscription Agreement). The terms of the Subscription Agreement were released to the ASX on 16 June 2015 (attached to the Appendix 3B on that date).

I. Anti-dilution right

On entry by the Company and NICO into the Subscription Agreement, the Company granted NICO a right to maintain, by way of a right to participate in any issue of shares or to subscribe for shares, its percentage interest in the issued share capital of the Company (Anti-dilution Right) in respect of a diluting event which occurs or is announced after 16 June 2015.

C. NATURE AND PURPOSE OF EQUITY

I. Ordinary shares

All ordinary shares on issue are fully paid and have no par value. Ordinary shares entitle the holder to a vote at a general meeting of the Company and to participate in the dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held.

Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Transaction costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

II. Treasury shares held in trust

To satisfy obligations under the various share-based remuneration plans, shares are generally bought on-market at or near grant date of the relevant arrangement and are managed using in-house trusts, one for Australia and one for New Zealand, which are controlled by IAG. The shares are measured at cost and are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, cancellation or reissue of the shares. The shares are derecognised as treasury shares held in trust when the shares vest or are released to the participant. The total number of treasury shares acquired on-market during the financial year was 4 million (2019: 7 million) at an average price per share of $7.50 (2019: $7.25).

III. Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences and related net investment hedge arising from the translation of the financial position and performance of subsidiaries and investments in associates that have a functional currency other than Australian dollars.

IV. Share-based remuneration reserve

The share-based remuneration reserve is used to recognise the fair value of equity-settled share-based remuneration obligations issued to employees. The total amount expensed over the vesting period through the consolidated statement of comprehensive income is calculated by reference to the fair value of the rights at grant date. The fair value of the rights is calculated at the grant date using a Black-Scholes valuation model and Monte Carlo simulation. The volatility assumption has been set considering the Company's historical share price. Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

The Company provides benefits to employees (including senior management and Executives) through share-based incentives to create a link between shareholder value creation and rewarding employees, and assist with retention of key personnel. The senior management and Executive share plan arrangements consist of two separate arrangements working together. These two arrangements are the Deferred Award Rights Plan (DARs Plan) and Executive Performance Rights Plan (EPRs Plan). The People and Remuneration Committee approves the participation of each individual in the plans.

The obligations under share-based payment arrangements are covered by the on-market purchase of ordinary shares of the Company which are held in trust. The number of shares purchased to cover each allocation of rights is determined by the trustee based on independent actuarial advice.

NOTE 4.3 EARNINGS PER SHARE

	2020 cents	2019 cents
A. REPORTING PERIOD VALUES		
Continuing and discontinued operations		
Basic earnings per ordinary share(1)	**18.87**	46.26
Diluted earnings per ordinary share(2)	**18.49**	44.58
Continuing operations		
Basic earnings per ordinary share(1)	**19.05**	37.45
Diluted earnings per ordinary share(2)	**18.65**	36.44

(1) The basic earnings per ordinary share is determined by dividing the profit or loss attributable to shareholders of the Parent by the weighted average number of shares of the Parent on issue during the reporting year. The treasury shares held in trust are deducted, but earnings attributable to those shares are included.

(2) Diluted earnings per share is determined by dividing the profit or loss attributable to shareholders of the Parent, adjusted for the finance costs of dilutive convertible instruments, by the weighted average number of ordinary shares and dilutive potential ordinary shares, primarily as a result of debt instruments that possess a conversion feature.

	2020 $m	2019 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share	**435**	1,076
Finance costs of dilutive convertible securities, net of tax	**30**	47
Profit attributable to shareholders of the Parent which is used in calculating diluted earnings per share	**465**	1,123
Profit from continuing operations attributable to shareholders of the Parent	**439**	871
(Loss)/profit from discontinued operations attributable to shareholders of the Parent	**(4)**	205

	2020 Number of shares in millions	2019 Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Weighted average number of ordinary shares on issue (adjusted for treasury shares held in trust) used in the calculation of basic earnings per share	**2,305**	2,326
Weighted average number of dilutive potential ordinary shares relating to:		
Convertible securities	**204**	188
Unvested share-based remuneration rights supported by treasury shares held in trust	**6**	5
	2,515	2,519

NOTE 4.4 DIVIDENDS

	2020		2019	
	Cents per share	**$m**	Cents per share	$m
A. ORDINARY SHARES				
2020 interim dividend paid on 25 March 2020 70% franked (2019: 2019 interim dividend fully franked) based on a tax rate of 30%	**10.0**	**231**	12.0	277
Special dividend paid on 26 November 2018 fully franked based on a tax rate of 30%	**-**	**-**	5.5	130
2019 final dividend paid on 30 September 2019 70% franked (2019: 2018 final dividend fully franked) based on a tax rate of 30%	**20.0**	**462**	20.0	473
		693		880
B. DIVIDEND NOT RECOGNISED AT REPORTING DATE				
2019 final dividend paid on 30 September 2019 70% franked based on a tax rate of 30%	**-**	**-**	20.0	462
C. DIVIDEND FRANKING AMOUNT				
Franking credits available for subsequent financial periods based on a tax rate of 30%		**-**		-

IAG's franking credit balance has reduced in recent years, owing to past capital management measures, the move to a higher dividend payout policy and the absence of taxable earnings in Australia (in the tax consolidated group) in the 2020 financial year, which was influenced by severe net natural peril claim costs and adverse reserving and credit spread effects.

D. DIVIDEND REINVESTMENT

A Dividend Reinvestment Plan (DRP) operates which allows shareholders with ordinary shares to elect to receive their dividend entitlement in the form of ordinary shares of the Company. The price of DRP shares is the VWAP, less a discount if determined by the Directors, calculated over the pricing period (which is at least five trading days) as determined by the Directors for each dividend payment date.

A copy of the terms and conditions for the DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment. The DRP for the 2020 interim dividend paid on 25 March 2020 was settled with the on-market purchase of 6.4 million shares priced at $6.58 per share (based on a VWAP for 10 trading days from 24 February 2020 to 6 March 2020 inclusive, with no discount applied).

E. RESTRICTIONS THAT MAY LIMIT THE PAYMENT OF DIVIDENDS

There are currently no restrictions on the payment of dividends by the Parent other than:

- the payment of dividends is subject to the provisions of the *Corporations Act 2001* and IAG's constitution;
- the payment of dividends generally being limited to profits, subject to ongoing solvency obligations, and under the APRA Level 2 Insurance Group supervision requirements, IAG is required to obtain approval from APRA before payment of dividends on ordinary shares that exceed the Group's after tax earnings as defined by APRA;
- recent regulatory guidance urging entities to exercise caution around capital distributions in the face of ongoing uncertainty and heightened economic risk; and
- no dividends can be paid and no returns of capital can be made on ordinary shares if distributions are not paid on the capital notes, unless certain actions are taken by IAG. For further details, refer to Note 4.1.

F. RECOGNITION AND MEASUREMENT

Provision for dividends is made in respect of ordinary shares where the dividends are declared on or before the reporting date, but have not yet been distributed at that date.

NOTE 4.5 DERIVATIVES

A. REPORTING DATE POSITIONS

	2020			2019		
	Notional contract amount	**Fair value asset**	**Fair value liability**	Notional contract amount	Fair value asset	Fair value liability
	$m	**$m**	**$m**	$m	$m	$m
I. Net investment hedges (hedge accounting applied)						
Forward foreign exchange contracts	**793**	**23**	**(4)**	788	4	(5)
II. Investment-related derivatives (derivatives without hedge accounting applied)						
Bond futures	**3,523**	**-**	**-**	2,781	-	-
Share price index futures	**(16)**	**-**	**-**	(144)	-	-
Forward foreign exchange contracts	**2,789**	**88**	**-**	3,845	20	(15)
III. Treasury-related derivatives (derivatives without hedge accounting applied)						
Forward foreign exchange contracts	**744**	**-**	**(6)**	1,033	7	(5)
Interest rate swaps	**-**	**-**	**-**	535	11	(2)

All derivative contracts are expected to be settled within 12 months.

B. RECOGNITION AND MEASUREMENT

Derivatives are initially recognised at fair value, which is determined by reference to current market quotes or generally accepted valuation principles. The investment-related derivatives are presented together with the underlying investments or as payables when the fair value is negative. The treasury-related derivatives are presented as receivables when the fair value is positive or as payables when the fair value is negative.

I. Hedge accounting

Hedge accounting may be applied to derivatives designated as hedging instruments provided certain criteria are met. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is ‘an economic relationship’ between the hedged item and the hedging instrument;
- the effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedge of net investments in foreign operations

The foreign currency exposures arising on translation of net investments in foreign operations are hedged (net investment hedge) using the spot element of forward exchange contracts and the designation of certain foreign currency borrowings as hedging instruments. The fair value is determined using observable inputs (level 2 in the fair value hierarchy).

There is an economic relationship between the hedged items and the hedging instruments as the net investment creates a translation risk that will match the foreign exchange risk on the spot element of the forward exchange contracts and the foreign currency borrowings. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instruments is identical to the hedged risk component. Any hedge ineffectiveness may arise when the exposure to the underlying net investment in the foreign operation falls below the notional amount of the forward exchange contracts and the amount of borrowings designated as net investment hedging instruments.

Any gain or loss on the net investment hedges relating to the effective portion of the hedge is recognised in equity, while the gain or loss relating to the ineffective portion is immediately recognised in profit or loss. Gains and losses accumulated in the equity reserve are recognised in profit or loss upon the disposal of the foreign operation.

Details of IAG’s activities in relation to hedges in its foreign operations against foreign currency movements are as follows:

	2020		2019	
	Change in fair value of items for ineffectiveness assessment	**Balance in foreign currency translation reserve**	Change in fair value of items for ineffectiveness assessment	Balance in foreign currency translation reserve
	$m	**$m**	$m	$m
I. Net investment hedges (hedge accounting applied)				
Forward foreign exchange contracts	**8**	**60**	28	349

During the year, IAG recognised $nil (2019: $nil) gain or loss due to ineffectiveness on derivative instruments designated as net investment hedges in the profit or loss.

II. Derivatives without hedge accounting applied

For derivatives that do not qualify for hedge accounting, the changes in fair value are immediately recognised in profit or loss. Transaction costs for purchases of derivatives are expensed as incurred.

The fair value of the bond futures and share price index futures are measured using a quoted price in an active market (level 1 in the fair value hierarchy), whilst the fair value of the interest rate swaps and forward foreign exchange contracts are determined using observable inputs (level 2 in the fair value hierarchy).

5. OTHER BALANCE SHEET DISCLOSURES

SECTION INTRODUCTION

This section provides disclosures on other components of IAG's financial position, including:

- Goodwill and intangible assets – these balances primarily relate to the difference between the total consideration paid and the net tangible assets acquired in relation to past business acquisitions as well as internally developed capitalised software. These assets support the generation of future earnings and are subject to impairment testing, with finite useful life intangible assets also subject to amortisation. For example, an impairment will arise if future earnings can no longer support the carrying value of the assets in question.
- Income tax – the note summarises both the comprehensive income (profit or loss and other comprehensive income) and balance sheet items related to income tax. The profit or loss disclosure includes a reconciliation between the income tax expense reported and the prima facie amount when applying the Australian company tax rate (30%). The balance sheet disclosure focuses on deferred tax balances, which arise due to timing differences between the accounting treatment of taxable income or expenses and the treatment adopted by the relevant tax authority. For example, IAG recognises a deferred tax asset in relation to the earthquake losses incurred by its New Zealand operations since the 2011 financial year. This asset is expected to unwind over time as the tax benefit recognised for accounting purposes is used to offset future taxable income.
- Provisions –historically this balance has primarily included employee-related costs, for example an annual leave entitlement representing amounts owing to employees at the balance date based on past service. During the current financial year a customer refund provision has also been recognised.
- Leases – the note provides information on the effect that leases have on the financial position, financial performance and cash flows of IAG.

NOTE 5.1 GOODWILL AND INTANGIBLE ASSETS

	GOODWILL	SOFTWARE DEVELOPMENT EXPENDITURE	DISTRIBUTION CHANNELS	CUSTOMER RELATIONSHIPS	BRANDS AND OTHER	TOTAL
	$m	$m	$m	$m	$m	$m
2020						
A. COMPOSITION						
Cost	**2,862**	**835**	**154**	**178**	**113**	**4,142**
Accumulated amortisation and impairment	**-**	**(658)**	**(152)**	**(173)**	**(25)**	**(1,008)**
Balance at the end of the financial year	**2,862**	**177**	**2**	**5**	**88**	**3,134**
B. RECONCILIATION OF MOVEMENTS						
Balance at the beginning of the financial year	**2,863**	**112**	**5**	**31**	**87**	**3,098**
Additions acquired and developed	**14**	**83**	**-**	**-**	**-**	**97**
Amortisation	**-**	**(18)**	**(2)**	**(25)**	**-**	**(45)**
Net foreign exchange movements	**(15)**	**-**	**(1)**	**(1)**	**1**	**(16)**
Balance at the end of the financial year	**2,862**	**177**	**2**	**5**	**88**	**3,134**

	GOODWILL	SOFTWARE DEVELOPMENT EXPENDITURE	DISTRIBUTION CHANNELS	CUSTOMER RELATIONSHIPS	BRANDS AND OTHER	TOTAL
	$m	$m	$m	$m	$m	$m
2019						
C. COMPOSITION						
Cost	2,863	756	156	180	112	4,067
Accumulated amortisation and impairment	-	(644)	(151)	(149)	(25)	(969)
Balance at the end of the financial year	2,863	112	5	31	87	3,098
D. RECONCILIATION OF MOVEMENTS						
Balance at the beginning of the financial year	2,875	121	36	65	86	3,183
Additions acquired and developed	20	43	-	-	-	63
Disposal through sale of businesses	(61)	-	(3)	(9)	(1)	(74)
Amortisation	-	(52)	(29)	(25)	-	(106)
Net foreign exchange movements	29	-	1	-	2	32
Balance at the end of the financial year	2,863	112	5	31	87	3,098

E. IMPAIRMENT

An impairment charge is recognised in profit or loss when the carrying value of the asset, or Cash-Generating Unit (CGU), exceeds the calculated recoverable amount. The impairment charge for goodwill cannot be subsequently reversed, whereas for identified intangibles the charge can be reversed where estimates used to determine the recoverable amount have changed. For assets with indefinite useful lives, which include goodwill, the recoverability of the carrying value of the assets is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired. The carrying amounts of intangible assets with finite useful lives are reviewed at each reporting date by determining whether there is an indication that the carrying values may be impaired. If any such indication exists, the asset is tested for impairment. For further details on the impact from COVID-19 refer to Note 1.2.

I. Impairment testing of goodwill

For the purpose of impairment testing goodwill is allocated to CGUs. The recoverable amount of goodwill is determined by value-in-use calculations, which estimate the present value of future cash flows by using a post-tax discount rate that reflects current market assessment of the risks specific to the CGUs. The carrying value of identified intangible assets is deducted from the value generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill. Where an impairment is determined, impairment losses relating to CGUs are allocated first to reduce goodwill and then to other CGU assets on a pro-rata basis.

Goodwill is allocated to the following CGUs:

	2020	2019
	$m	$m
Australian Consumer	**788**	774
Australian Business	**1,421**	1,421
Australia	**2,209**	2,195
New Zealand	**653**	668
	2,862	2,863

The following describes the key assumptions on which management based its cash flow projections to undertake the impairment testing:

- Cash flow forecasts are based on ten-year valuation forecasts for growth and profitability.
- Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast at the end of the relevant valuation forecast period, terminal growth rate in profit or premium and, where appropriate, terminal insurance margin. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance in each segment and country. The terminal growth rate assumptions used in IAG's impairment assessment for significant CGUs as at 30 June 2020 are: Australian Consumer 4.6% (2019: 4.8%), Australian Business 3.4% (2019: 4.0%) and New Zealand 3.7% (2019: 3.8%).
- Discount rates reflect a beta and equity risk premium appropriate to IAG, with risk adjustments for individual segments and countries where applicable. The post-tax discount rates used for significant CGUs as at 30 June 2020 are: Australian Consumer 9.0% (2019: 9.5%), Australian Business 9.0% (2019: 9.5%) and New Zealand 9.6% (2019: 10.1%).

II. Impairment testing of identified intangible assets

Where the recoverable amount is determined by a value-in-use calculation, it involves the use of accounting estimates and assumptions to determine the projected net cash flows, which are discounted using an appropriate discount rate to reflect current market assessment of the risks associated with the assets or CGU. A description of the nature of significant intangible assets is provided below:

- An impairment charge for capitalised software is incurred if there is evidence of obsolescence or significant changes impacting the manner in which an asset is used or expected to be used or there is evidence indicating the economic performance of the asset is not as intended by management.
- The value of distribution channels is derived from future revenue expected to be generated as a result of the existing relationships with the broker networks.
- Customer relationships represent the present value of future profits expected to arise from existing customer relationships (developed prior to acquisition of the business). The assumptions for the useful life and customer attrition rates are determined based on historical information.
- Brands represent the revenue-generating value of the acquired brand which is determined using the relief from royalty method.

F. RECOGNITION AND MEASUREMENT

All of the goodwill and intangible assets, other than components of capitalised software development expenditure (internally generated), have been acquired.

Intangible assets are initially recorded at cost at the date of acquisition, being the fair value of the consideration. Internally generated intangible assets comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Goodwill is generated as a result of business acquisition and is initially measured as the excess of the purchase consideration over the fair value of the net identifiable assets and liabilities acquired. At the date of disposal of a business, attributed goodwill is used to calculate the gain or loss on disposal.

Intangible assets with an indefinite useful life, including goodwill and certain brands, are not subject to amortisation but to impairment testing. Intangible assets with finite useful lives are amortised on a straight-line basis over the period in which the related economic benefits are expected to be realised. Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively. Amortisation is recognised within fee-based, corporate and other expenses in the consolidated statement of comprehensive income, whilst the amortisation of capitalised software is recognised within the insurance profit. The useful lives for each category of intangible assets are as follows:

- capitalised software: up to 3 years, with major core software infrastructure amortised over a period up to 10 years;
- distribution channels: 5 to 10 years;
- customer relationships: 5 to 10 years; and
- brands and other: up to 20 years, except for certain brands with an indefinite useful life.

NOTE 5.2 INCOME TAX

	2020 $m	2019 $m
A. INCOME TAX EXPENSE		
Current tax	**145**	242
Deferred tax	**(105)**	109
(Over)/under-provided in prior year	**(3)**	12
Income tax expense	**37**	363
Deferred income tax (credit)/expense included in income tax comprises		
(Increase)/decrease in deferred tax assets	**(104)**	110
Decrease in deferred tax liabilities	**(1)**	(1)
	(105)	109
B. RECONCILIATION OF PRIMA FACIE TAX TO INCOME TAX EXPENSE		
Profit for the year before income tax	**535**	1,332
Income tax calculated at 30% (2019: 30%)	**161**	400
Amounts which are not deductible/(taxable) in calculating taxable income		
Disposal of investment in associate	**(109)**	-
Difference in tax rate	**(20)**	(43)
Rebatable dividends	**(4)**	(7)
Interest on capital notes and convertible preference shares	**5**	6
Other	**7**	(5)
Income tax expense applicable to current year	**40**	351
Adjustment relating to prior year	**(3)**	12
Income tax expense attributable to profit for the year from continuing operations after impact of tax consolidation	**37**	363
C. DEFERRED TAX ASSETS		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Property and equipment	**89**	70
Employee benefits	**75**	81
Insurance provisions	**165**	112
Investments	**42**	37
Provisions	**81**	5
Tax losses	**259**	323
Other	**42**	-
	753	628
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Defined benefit superannuation plans	**23**	18
	776	646
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX LIABILITIES	**(201)**	(193)
	575	453
II. Reconciliation of movements		
Balance at the beginning of the financial year	**646**	740
Adjustment on initial application of AASB 16 (see Note 8.5)	**14**	-
Restated balance at the beginning of the financial year	**660**	740
Credited/(charged) to profit or loss	**104**	(110)
Credited to equity	**5**	7
Adjustments relating to prior year	**11**	(6)
Acquisition of subsidiary	**1**	-
Foreign exchange differences	**(5)**	15
Balance at the end of the financial year prior to set-off	**776**	646

III. Tax losses
The deferred tax assets from tax losses primarily relate to those incurred in IAG's New Zealand business as a result of the Christchurch earthquake events that occurred in 2010 and 2011 and the 2016 Kaikoura earthquake. In the context of the New Zealand Income Tax Act, tax losses carried forward do not expire after a particular period and remain available to offset against future income tax liabilities, provided the 49% continuity of shareholding requirement is met at the listed holding company level.

	2020 $m	2019 $m
D. DEFERRED TAX LIABILITIES		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Investments	**17**	67
Intangible assets	**15**	21
Other	**159**	104
	191	192
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Hedges	**10**	1
	201	193
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX ASSETS	**(201)**	(193)
	-	-
II. Reconciliation of movements		
Balance at the beginning of the financial year	**193**	196
Credited to profit or loss	**(1)**	(1)
Charged/(credited) to equity	**9**	(2)
Balance at the end of the financial year prior to set-off	**201**	193

E. RECOGNITION AND MEASUREMENT

I. Income tax
Income tax expense for a reporting year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in either equity or other comprehensive income.

II. Current tax
Current tax assets and liabilities are the expected tax recoverable or payable on the taxable income for the year, using tax rates for each jurisdiction, and any adjustment to tax payable in respect of previous financial periods. These include any rates or laws enacted or substantially enacted at the consolidated balance sheet date.

III. Deferred tax
Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount and tax bases. Deferred tax assets (deductible temporary differences, carried forward unused tax assets and unused tax losses) are recognised to the extent it is probable that future taxable profit will be available to utilise them before the unused tax losses or credits expire. In making this assessment, IAG considers historical trends of profit generation.

The following demonstrates other circumstances when no deferred tax asset or liability is recognised:

- temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss;
- temporary differences between the carrying amount and tax bases of investments in subsidiaries where it is probable that the differences will not reverse in the foreseeable future; and
- temporary differences relating to the initial recognition of goodwill.

IV. Tax consolidation
The Company and its Australian resident wholly-owned subsidiaries adopted the tax consolidation legislation with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The Company is the head entity within the tax-consolidated group.

NOTE 5.3 PROVISIONS

	2020 $m	2019 $m
A. EMPLOYEE BENEFITS		
I. Expense recognised in the consolidated statement of comprehensive income		
Defined contribution superannuation plans	**109**	106
Defined benefit superannuation plans	**6**	5
Share-based remuneration	**23**	27
Salaries and other employee benefits expense	**1,486**	1,514
	1,624	1,652
II. Provision recognised on the consolidated balance sheet		
Short-term and other benefits*	**157**	192
Long service leave	**101**	91
Defined benefit superannuation plans	**68**	46
Executive performance rights	**11**	20
	337	349

* Short-term and other benefits include annual leave entitlements and cash-based incentive arrangements. As agreed by the Board, no STI payments will be made in respect of the 2020 financial year.

The employee benefits provision includes $134 million (2019: $114 million) which is expected to be settled after more than 12 months from reporting date.

	2020 $m	2019 $m
B. RESTRUCTURING PROVISION		
Balance at the beginning of the financial year	**40**	18
Additions	**19**	48
Amounts settled	**(27)**	(26)
Balance at the end of the financial year	**32**	40

The provision primarily comprises restructuring costs in respect of operating model changes in Australia, New Zealand and Asia. All provisions outstanding at the reporting date are expected to be settled within 12 months (2019: all).

	2020 $m	2019 $m
C. CUSTOMER REFUND PROVISION		
Balance at the beginning of the financial year	**-**	-
Additions	**290**	-
Amounts utilised	**(20)**	-
Balance at the end of the financial year*	**270**	-

* This balance includes an offsetting amount of $21 million in respect of recoverable indirect taxes.

During the current year IAG recognised a gross provision of $290 million for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This relates to multi-year pricing issues identified by IAG as part of a review of its pricing systems and processes, which is ongoing (refer also to Note 7.1). A related recovery of $44 million has been recognised from IAG's whole-of-account quota share arrangements. This recovery has been offset within the reinsurance premium payable balance. The appropriateness of all underlying assumptions will be reviewed as the remediation program progresses and adjustments will be made to the provision where required.

The customer refund provision includes $108 million which is expected to be settled after more than 12 months from reporting date.

D. RECOGNITION AND MEASUREMENT

I. Annual leave

Liability for annual leave is recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when the liability is settled, including on-costs.

II. Long service leave

A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The estimated future cash outflows are discounted using corporate bond yields which have terms to maturity that match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as expected future salary increases, experience of employee departures and period of service, are incorporated in the measurement.

III. Short-term incentive plan
The short-term incentive plan continued in operation during the current reporting year. Under the plan, eligible employees have the capacity to earn an incentive, calculated as a proportion of their base salary, which is paid in cash each year. The incentive opportunity is set depending on an employee's role and responsibilities. The majority of employees are on a 10%, 15% or 20% plan. The incentive payments are determined based on an assessment of individual performance and achievement of a range of Group, business unit and individual goals.

IV. Superannuation
For defined benefit superannuation plans, the net financial position of the plans is recognised on the consolidated balance sheet and the movement in the net financial position is recognised in profit or loss, except for remeasurements of defined benefit plans (experience adjustments and changes in actuarial assumptions), which are recognised directly in retained earnings. For defined contribution superannuation plans, obligations for contributions are recognised in profit or loss as they become payable.

V. Executive performance rights
Executive performance rights (EPRs) issued after July 2013 are indeterminate rights in that they can be cash-settled or equity-settled. The choice of settlement is with the Board. Liabilities for the EPRs that are cash-settled are recognised as employee benefit expense over the relevant service period. The liabilities are remeasured to fair value at each reporting date and are presented as employee benefit obligations in the balance sheet.

VI. Restructuring provision
A provision is recognised for the expected costs associated with restructuring where there is a detailed formal plan for restructure and a valid expectation has been raised in those persons expected to be affected. The provision is based on the direct expenditure to be incurred which is both directly and necessarily caused by the restructuring and may include termination benefits. It does not include costs associated with ongoing activities. The adequacy of the provision is reviewed regularly and adjusted if required. Revisions to the estimated amount of a restructuring provision are reported in the period in which the revision to the estimate occurs.

VII. Customer refund provision
A provision is recognised for the expected costs associated with customer refunds. In establishing this provision, assumptions have been made around the quantum of the premium impact for affected customers, the compound interest attributable to the base premium amount and the costs associated with operating the associated remediation program.

NOTE 5.4 LEASES
A. AMOUNTS RECOGNISED IN THE BALANCE SHEET
I. Right-of-use assets

	PROPERTIES	EQUIPMENT	MOTOR VEHICLES	Total
	$m	$m	$m	$m
2020				
Balance at the beginning of the financial year	525	26	2	553
Acquisition of subsidiary	31	-	-	31
Additions to right-of-use assets	42	2	2	46
Depreciation and impairment	(88)	(7)	(1)	(96)
Derecognition of right-of-use assets	(1)	-	-	(1)
Net foreign exchange movements	(2)	-	-	(2)
Balance at the end of the financial year	507	21	3	531

IAG recognised an impairment of $10 million on its right-of-use assets as a result of the planned closure of the AMI retail network across New Zealand.

II. Lease liabilities

	2020
	$m
Current	82
Non-current	573
Carrying value of lease liabilities	655
Due within 1 year	94
Due within 1 to 2 years	153
Due within 2 to 5 years	210
Due after 5 years	284
Total undiscounted lease liabilities	741

III. Net investment in sub-lease

The Group has leased out a portion of one of its leased properties, which it has classified as a finance sub-lease. At the reporting date, the Group recognised net investment in sub-lease of $35 million which is presented within trade and other receivables in the consolidated balance sheet.

B. AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2020 $m
Depreciation and impairment (included in underwriting expense and fee-based, corporate and other expenses)	(96)
Interest expense (included in finance costs)	(19)
Expense relating to short-term leases (included in underwriting expense and fee-based, corporate and other expenses)	(2)
Interest income from sub-leasing right-of-use assets (included in fee and other income)	1

C. AMOUNTS RECOGNISED IN THE CASH FLOW STATEMENT

	2020 $m
Total cash outflow for leases	95

D. RECOGNITION AND MEASUREMENT

Properties, motor vehicles and equipment of the Group are leased under non-cancellable lease agreements, which are measured under *AASB 16*. Most leases are subject to annual review and, where appropriate, a right of renewal has been incorporated into the lease agreements. There are no options to purchase the relevant assets on expiry of the lease.

For lessees, until the 2019 financial year, leases of property, motor vehicles and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date in which the Group has the right to use the asset. See Note 8.5 for details on the impact of the change.

Assets and liabilities arising from a lease are initially measured as the present value of lease payments over the term of the agreement that are not paid at that date. Lease liabilities include the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease term is determined as the non-cancellable period of a lease, considering any options to extend or early terminate the lease that the entity reasonably expects to exercise.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- identifies the relevant risk-free yield curve for the country-specific lease and lease term; and
- applies a margin to the risk-free rate that reflects the entity-specific credit risk which reflects the rate at which it could borrow from external markets. The margin has been identified by taking an average of those applied in external markets by entities with a similar credit rating issuing debt for durations which are consistent with the terms of leases held by IAG.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost representing the time value of money is charged to the profit or loss over the lease period. The discount rate applied is unchanged from that applied at the initial recognition of the lease, unless there are material changes to the lease.

Right-of-use assets are measured at cost comprising the following:

- the initial measurement of lease liability; adjusted for
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of property, motor vehicles and equipment are recognised on a straight-line basis as an expense in profit or loss. Short-term leases have a lease term of 12 months or less.

6. GROUP STRUCTURE

SECTION INTRODUCTION
This section provides disclosures on the Group structure, including details of the significant controlled entities and equity accounted investments. It also provides details of any significant acquisitions and divestments during the year.

NOTE 6.1 DISPOSALS OF BUSINESSES

A. SALE OF SUBSIDIARY

On 30 September 2019, IAG completed the sale of its Indonesian subsidiary, PT Asuransi Parolamas, for a net consideration of $14 million.

B. SALE OF ASSOCIATE

On 30 March 2020, IAG announced the completion of the disposal of its 26% interest in its joint venture with the State Bank of India, SBI General Insurance Company Limited, following completion of all the requisite regulatory processes and approvals. Details of the sale are as follows:

	2020 $m
Consideration received:	
Cash consideration	692
Transaction costs, including withholding tax and hedging costs	(113)
Net cash consideration received	579
Carrying amount of investment in associate	(202)
Other transaction costs	(64)
Gain on sale before income tax and reclassification of foreign currency translation reserve	313
Reclassification of foreign currency translation reserve	(4)
Gain on sale before income tax	309
Income tax benefit	17
Gain on sale after income tax	326

NOTE 6.2 DISCONTINUED OPERATIONS

On 19 June 2018, IAG announced it had entered into a sale agreement with Tokio Marine & Nichido Fire Insurance Co., Ltd. (Tokio Marine) for IAG's operations in Thailand and Indonesia. Separate to the transactions with Tokio Marine, IAG agreed the sale of its interest in AAA Assurance Corporation, based in Vietnam. These consolidated Asian businesses have been identified as discontinued operations. The sale of IAG's operations in Thailand and Indonesia were completed on 31 August 2018 and 30 September 2019 respectively, with the performance of these operations being included up to their respective completion dates.

The counterparty to the agreed sale of AAA Corporation has failed to receive the necessary regulatory approvals and will not be proceeding. IAG is assessing alternative exit options for its Vietnam business but still expects to dispose of its economic interest over the coming twelve months.

	2020 $m	2019 $m
A. RESULTS OF DISCONTINUED OPERATIONS		
Revenue	**20**	224
Expenses	**(22)**	(227)
Loss before income tax	**(2)**	(3)
Income tax expense	**-**	(1)
Loss for the year from discontinued operations	**(2)**	(4)
(Loss)/gain on sale of subsidiaries after income tax	**(2)**	208
(Loss)/profit from discontinued operations	**(4)**	204
Other comprehensive income, net of tax	**2**	20
Total comprehensive (loss)/income from discontinued operations	**(2)**	224
(Loss)/profit for the year attributable to shareholders of the Parent	**(4)**	205
Loss for the year attributable to non-controlling interests	**-**	(1)
(Loss)/profit for the year from discontinued operations	**(4)**	204
Total comprehensive (loss)/income for the year attributable to shareholders of the Parent	**(2)**	225
Total comprehensive loss for the year attributable to non-controlling interests	**-**	(1)
Total comprehensive (loss)/income from discontinued operations	**(2)**	224

	2020 $m	2019 $m
B. EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS		
Basic earnings per share, from discontinued operations – cents per share	**(0.17)**	8.81
Diluted earnings per share, from discontinued operations – cents per share	**(0.16)**	8.14
C. CASH FLOW FROM DISCONTINUED OPERATIONS		
Net cash flows from operating activities	**(4)**	(24)
Net cash flows from investing activities*	**3**	382
Net cash flows from financing activities	**-**	23
Net cash flows for the year from discontinued operations	**(1)**	381

* The net cash flows from investing activities for the year ended 30 June 2020 includes a net inflow of $5 million from the sale of IAG's Indonesian operations, which is comprised of the net cash consideration received of $14 million and the cash and cash equivalents disposed which totalled $9 million (2019: a net inflow of $383 million from the sale of IAG's Thailand operations, which is comprised of the net cash consideration received of $506 million and the cash and cash equivalents disposed of totalling $123 million).

D. ASSETS AND LIABILITIES HELD FOR SALE

The assets and liabilities that were classified as held for sale as at 30 June 2019, related to IAG's consolidated businesses in Vietnam and Indonesia. Following the completion of the sale of the operations in Indonesia in the current financial year, the remaining assets and liabilities classified as held for sale now relate solely to the business in Vietnam.

	2020 $m	2019 $m
Cash held for operational purposes	**1**	10
Investments	**22**	33
Trade and other receivables	**-**	3
Reinsurance and other recoveries on outstanding claims	**1**	3
Deferred insurance expenses	**2**	3
Other assets	**7**	8
Goodwill and intangible assets	**-**	1
Total assets held for sale	**33**	61
Trade and other payables	**4**	7
Outstanding claims liability	**5**	9
Unearned premium liability	**5**	10
Other liabilities	**-**	1
Total liabilities held for sale	**14**	27

E. RECOGNITION AND MEASUREMENT

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement. Assets and liabilities classified as held for sale are presented separately in the balance sheet.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

NOTE 6.3 DETAILS OF SUBSIDIARIES

The following table details IAG's general insurance operations and other significant controlled entities:

	COUNTRY OF INCORPORATION/ FORMATION	OWNERSHIP INTEREST HELD BY GROUP IF NOT 100%	
		2020	2019
		%	%
A. ULTIMATE PARENT			
Insurance Australia Group Limited	Australia		
B. SUBSIDIARIES			
I. Australian general insurance operations			
Insurance Australia Limited	Australia		
Insurance Manufacturers of Australia Pty Limited	Australia	**70.00**	70.00
II. New Zealand general insurance operations			
IAG New Zealand Limited	New Zealand		
III. International insurance operations			
AAA Assurance Corporation*	Vietnam	**73.07**	73.07
IAG Re Labuan (L) Berhad	Malaysia		
IAG Re Singapore Pte Ltd	Singapore		

* On 19 June 2018, IAG announced the sale of its businesses in Thailand, Vietnam and Indonesia. The sale of IAG's operations in Thailand and Indonesia were completed on 31 August 2018 and 30 September 2019 respectively. Refer to Notes 6.1 and 6.2.

NOTE 6.4 NON-CONTROLLING INTERESTS

A. SUMMARISED FINANCIAL INFORMATION

Set out below is summarised financial information (before intercompany eliminations) of controlled entities where significant non-controlling interests exist, being Insurance Manufacturers of Australia Pty Limited of which IAG's beneficial interest is 70%.

	INSURANCE MANUFACTURERS OF AUSTRALIA PTY LIMITED	
	2020	2019
	$m	$m
I. Summarised statement of comprehensive income		
Net premium revenue	**3,413**	3,344
Profit after tax attributable to the Parent entity	**149**	229
Profit after tax attributable to non-controlling interest	**64**	98
Other comprehensive income	**(2)**	(2)
Total comprehensive income	**211**	325
II. Summarised balance sheet		
Total assets	**4,832**	4,603
Total liabilities	**(3,927)**	(3,619)
Net assets	**905**	984
Carrying amount of non-controlling interest	**272**	295
III. Summarised cash flow		
Net cash flows from operating and investing activities	**644**	168
Dividends paid to other IAG entities	**(204)**	(168)
Dividends paid to non-controlling interest	**(87)**	(72)
Total net cash flows	**353**	(72)

NOTE 6.5 INVESTMENT IN JOINT VENTURE AND ASSOCIATES

A. INTERESTS IN JOINT VENTURE AND ASSOCIATES

Summarised information of interests in material associates and joint venture accounted for on an equity basis is as follows:

	COUNTRY OF INCORPORATION/ FORMATION	PRINCIPAL ACTIVITY	CARRYING VALUE		OWNERSHIP INTEREST	
			2020	2019	**2020**	2019
			$m	$m	**%**	%
AmGeneral Holdings Berhad (AmGeneral)	Malaysia	Insurance underwriting	**341**	356	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)*	India	Insurance underwriting	**-**	172	**-**	26.00
Other			**10**	16		
			351	544		

* The sale of SBI General was completed on 30 March 2020. Refer to Note 6.1 for further details.

For further details on the impact from COVID-19 refer to Note 1.2.

B. SUMMARISED FINANCIAL INFORMATION

Summarised financial information of IAG's material associate, AmGeneral, is provided below. The summarised financial information represents the financial position and performance of the entity as a whole (100% stand-alone basis) and not just IAG's share. The financial statements below are for the year ended 31 March.

	AMGENERAL HOLDINGS BERHAD	
	2020	2019
	$m	$m
I. Summarised statement of comprehensive income		
Revenue	**625**	570
Profit after tax	**84**	71
Total comprehensive income	**84**	71
Dividends received from associate	**18**	80
II. Summarised balance sheet		
Total assets	**2,020**	1,914
Total liabilities	**(1,261)**	(1,210)
Net assets as at reporting date	**759**	704
IAG's ownership interest	**372**	345
Other adjustments*	**(30)**	11
Carrying value as at 30 June	**342**	356

* Other adjustments include IFRS adjustments, foreign exchange revaluations, goodwill, intangibles and share of profit/(loss) from financial statement date to 30 June.

AmGeneral Holdings Berhad is not listed on a stock exchange. It has a 31 March financial year end and is equity accounted using financial information for the reporting year to 30 June which includes, at least in part, unaudited management results.

C. RECOGNITION AND MEASUREMENT

IAG's investments in its associates and joint venture are accounted for using the equity method and are those entities over which it exercises significant influence or joint control, generally reflecting a shareholding of between 20% and 50% of the voting rights of an entity. The investment in associates is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and subsequently adjusted for the post-acquisition change in the investor's share of net assets of the investee. The investor's share of the profit or loss of the investee is included in the profit or loss of IAG and disclosed as a separate line in the consolidated statement of comprehensive income. Distributions received reduce the carrying amount of the investment and are not included as dividend revenue of IAG. Movements in the total equity of the investee that are not recognised in the profit or loss of the investee are recognised directly in equity of IAG and disclosed in the statement of changes in equity. The carrying values of the investments are reviewed annually for impairment.

Where an entity either began or ceased to be an associate during the current financial reporting year, the investment is equity accounted from the date significant influence commenced or up to the date significant influence ceased.

The financial statements of associates are adjusted where necessary to comply with the significant accounting policies of IAG.

When IAG's share of losses exceeds its interest in the investee, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that IAG has incurred obligations or made payments on behalf of the investee.

NOTE 6.6 PARENT ENTITY DISCLOSURES

The ultimate Parent entity in the Group is Insurance Australia Group Limited, which is incorporated in Australia. The following information of the Parent entity is disclosed as required by the current regulatory requirements in Australia.

		PARENT
	2020	2019
	$m	$m
A. FINANCIAL RESULTS		
Profit for the year	**1,385**	511
Total comprehensive income for the year, net of tax	**1,385**	511
B. FINANCIAL POSITION		
Current assets	**357**	238
Total assets	**11,264**	10,441
Current liabilities	**199**	87
Total liabilities	**2,179**	2,047
C. SHAREHOLDERS' EQUITY		
Share capital	**6,617**	6,617
Retained earnings	**2,468**	1,777
Total shareholders' equity	**9,085**	8,394

D. CONTINGENT LIABILITIES

There are no known material exposures to the Parent or events that would require it to satisfy any guarantees or take action under a support agreement (2019: nil).

Recognition and measurement

Contingent liabilities are not recognised on the balance sheet but are disclosed where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure.

E. COMMITMENTS

The Parent has no material commitments (2019: nil).

7. UNRECOGNISED ITEMS

SECTION INTRODUCTION

This section provides an overview of those items that are not required to be recognised in the financial statements, but may have informative content in relation to IAG's performance or financial position and are required to be disclosed under the accounting standards. These include:

- contingencies – these primarily relate to contingent liabilities that are only recognised in the financial statements when their settlement becomes probable or the amount to be settled can be reliably measured; and
- events subsequent to reporting date – information is included on non-adjusting events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. For example, disclosure of the final dividend in relation to a financial year as it is declared to be paid by the Board subsequent to the reporting date.

NOTE 7.1 CONTINGENCIES

In the normal course of business, transactions are entered into that may generate a range of contingent liabilities. These include litigation arising out of insurance policies and IAG's undertakings for maintenance of net worth and liquidity support to subsidiaries. Such undertakings constitute a statement of present intent only and are not intended to give rise to any binding legal obligation. The Directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

IAG conducts fiduciary activities in the form of investment management as it operates as manager, custodian or trustee for a number of investments and trusts. The funds managed on behalf of third parties which are not included in IAG's balance sheet had a fair value as at the reporting date of $419 million (2019: $358 million).

In the current financial year, the Group has recognised insurance liabilities for potential COVID-19 claim impacts that remain highly uncertain. These liabilities have been recognised on a probability-weighted basis in accordance with the relevant accounting standard (AASB 1023). Given the extent of the related uncertainty, the range of potential financial outcomes is unusually wide. For further information refer to Note 1.2.

As at 30 June 2020, the Group had a contingent liability in respect of the matters outlined below:
- As was communicated in an ASX announcement dated 11 April 2019, a representative proceeding has been filed by Johnson Winter & Slattery in the Federal Court of Australia against IAG subsidiaries, Swann Insurance (Aust) Pty Ltd and Insurance Australia Limited, on behalf of Jones Asirifi Otchere. Given the stage these proceedings are at, it is currently not possible to determine the ultimate financial impact this claim will have on IAG, if any. IAG is defending this claim.
- As advised on 24 January 2020, a proactive review of IAG's pricing systems and processes is ongoing. The outcome of this review, and the scale of any further potential costs over and above the customer refund provision recognised during the current financial year, are presently uncertain.
- To satisfy itself of compliance, and in keeping with a number of other large corporations, IAG is currently undertaking a retrospective compliance review across a number of its payroll-related procedures. It is too early to definitively determine what the financial outcome may be.

NOTE 7.2 EVENTS SUBSEQUENT TO REPORTING DATE

Details of matters subsequent to the end of the financial year are set out below. These include:
- On 24 July 2020, IAG provided an update on its preliminary results for the year ended 30 June 2020. This announcement confirmed that the Group was expecting gross written premium (GWP) growth of around 1%, consistent with the 'low single digit' guidance maintained throughout the 2020 financial year and an insurance margin of approximately 10% (on a management reported basis), with the shortfall against prior guidance of 12.5-14.5% largely driven by adverse natural perils, prior period reserving and credit spread factors. These financial statements are consistent with the preliminary financial results reported.
- On 7 August 2020, the Board determined not to pay a final dividend.

In a COVID-19 context, IAG notes the recent developments in Victoria, including the declaration of a State of Disaster with effect from 2 August 2020, where the related business effects remain highly uncertain.

8. ADDITIONAL DISCLOSURES

SECTION INTRODUCTION

This section includes other information that must be disclosed to comply with the Accounting Standards, Corporations Act and ASX Listing Rules, but which is considered less relevant to understanding IAG's performance or financial position.

NOTE 8.1 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2020	2019
	$m	$m
A. COMPOSITION OF CASH AND CASH EQUIVALENTS		
Cash held for operational purposes	**405**	538
Cash and short-term money held in investments	**1,893**	1,121
Cash and cash equivalents in discontinued operations	**24**	39
Cash and cash equivalents	**2,322**	1,698
B. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**494**	1,173
I. Non-cash items		
Net gains on disposal of subsidiaries excluding transaction costs	**(373)**	(300)
Net losses/(gains) on investments	**304**	(191)
Amortisation of intangible assets	**45**	106
Depreciation of right-of-use assets and property and equipment and impairment	**152**	64
Other non-cash items	**(42)**	(16)
II. Movement in operating assets and liabilities		
Insurance assets	**(539)**	(398)
Insurance liabilities	**145**	(37)
Net movement in other operating assets and liabilities	**155**	217
Net movement in tax assets and liabilities	**(209)**	(91)
Provisions	**249**	62
Net cash flows from operating activities	**381**	589

C. SIGNIFICANT NON-CASH TRANSACTIONS RELATING TO FINANCING AND INVESTING TRANSACTIONS
There were no financing or investing transactions during the year which have had a material effect on the assets and liabilities that did not involve cash flows.

D. RECOGNITION AND MEASUREMENT
Cash and cash equivalents represent cash at bank and on hand, deposits at call and short-term money held in investments, net of any bank overdraft. Money held in investments is readily convertible to cash within two working days and subject to insignificant risk of change in value. The majority of the amounts bear variable rates of interest based on daily bank deposit rates. Those balances bearing a fixed rate of interest mature in less than one year.

NOTE 8.2 RELATED PARTY DISCLOSURES

A. KEY MANAGEMENT PERSONNEL

I. Details of compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity. It is important to note that the Company's Non-Executive Directors are specifically required to be included as KMP in accordance with *AASB 124 Related Party Disclosures*. However, the Non-Executive Directors do not consider that they are part of 'management'. The aggregate compensation disclosed in the table below represents the KMP's estimated compensation received from IAG in relation to their involvement in the activities within the Group.

	2020	2019
	$000	$000
Short-term employee benefits	**10,141**	12,854
Post-employment benefits	**342**	333
Other long-term benefits	**92**	14
Share-based payments	**7,050**	8,856
	17,625	22,057

II. Other benefits

Remuneration does not include premiums paid by IAG for an insurance contract covering current and former Non-Executive Directors' and Executives' liabilities and legal expenses incurred in respect of the relevant office, as the insurance policies do not specify premiums paid on behalf of specific individual Non-Executive Directors and Executives and the terms of the contract specifically prohibit the disclosure of the premium paid. Insurance products provided by IAG are available to all Non-Executive Directors and Executives on the same terms and conditions available to other employees.

NOTE 8.3 REMUNERATION OF AUDITORS

	2020	2019
	$000	$000
A. KPMG		
Audit of the financial statements prepared for the Parent and subsidiaries	**7,806**	7,504
Audit of statutory returns in accordance with regulatory requirements	**572**	576
Other assurance services	**160**	175
Advisory services	**1,472**	3,031
Total remuneration of auditors	**10,010**	11,286

During the 2019 financial year, IAG engaged external legal advisors in relation to the Royal Commission. As part of this engagement, the legal advisors appointed IAG's auditors, KPMG, to provide project administration, documentation and preparation assistance, process and control review and testing and general assistance. The costs incurred for this engagement relating to KPMG totalled $1,526 thousand, which were presented within advisory services costs above for the 2019 financial year. No costs in relation to this engagement have been incurred during the current financial year.

NOTE 8.4 NET TANGIBLE ASSETS

	2020	2019
	$	$
Net tangible assets per ordinary share	**1.27**	1.43

Net tangible assets per ordinary share have been determined using the net assets on the balance sheet adjusted for non-controlling interests, intangible assets and goodwill.

NOTE 8.5 IMPACT OF NEW AUSTRALIAN ACCOUNTING STANDARDS ISSUED

A. ISSUED AND EFFECTIVE

The new Australian Accounting Standards and Interpretations applicable for the current reporting year are given below.

TITLE	DESCRIPTION
AASB 16	Leases
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
AASB Interpretation 23	Uncertainty over Income Tax Treatments, and relevant amending standards

Adoption of the new and amended accounting standards had no material financial impact on the Group. Information on the impact of *AASB 16* is provided below for clarity.

AASB 16 Leases

AASB 16, which was issued in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaced the previous accounting requirements for leases, under *AASB 117*, effective from 1 July 2019 for IAG.

AASB 16 requires lessees to recognise most leases on the balance sheet in the form of a right-of-use asset (ROUA) and a corresponding lease liability. The standard allows exemptions for short-term leases (less than 12 months) and for leases on low value assets. For IAG, the main impact of the new standard was on leases which were previously classified as operating leases, being predominantly property and motor vehicle related leases.

As a result of the adoption of *AASB 16*, IAG has recognised depreciation expense on ROUAs, on a straight-line basis over the lease term, and interest expense on lease liabilities.

IAG has adopted *AASB 16* using the modified retrospective approach with the date of initial application being 1 July 2019. Under this approach, the cumulative effect of adoption is recognised as an adjustment to opening retained earnings as at 1 July 2019, with no restatement of comparative information.

The modified retrospective approach allows entities to use a number of practical expedients on adoption of the new standard, of which IAG elected to use the following:

- the use of a single discount rate applied to a portfolio of leases with similar characteristics;
- reliance on previous assessments of whether a lease was onerous immediately before the date of initial application;
- for some leases which meet the definition of a short-term lease, non-application of *AASB 16*; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate a lease.

The effect of adoption of *AASB 16* as at 1 July 2019 is as follows:

	Increase/(decrease) $m
Assets	
Right-of-use assets	553
Trade and other receivables	35
Property and equipment	(35)
Deferred tax assets	14
Other assets	(6)
Total assets	561
Liabilities	
Lease liabilities	655
Trade and other payables	(29)
Other liabilities	(32)
Total liabilities	594
Equity	
Retained earnings	(33)

On transition to *AASB 16*, the modified retrospective approach provides two options for measurement of the ROUA. The first option is to measure the ROUA as an amount equal to the lease liability adjusted for any prepaid or accrued lease payments. The second option is to measure the ROUA as if *AASB 16* had always been applied from the initial recognition of the lease. These measurement options have been applied on a lease-by-lease basis.

The following is a reconciliation of total operating lease commitments as at 30 June 2019 to the lease liabilities recognised as at 1 July 2019:

	$m
Operating lease commitments disclosed as at 30 June 2019	792
Discounted using IAG's incremental borrowing rate at the date of initial application	(98)
Add: finance lease liabilities recognised as at 30 June 2019	33
Less: contracts reassessed as service agreements	(72)
Lease liability recognised as at 1 July 2019	655

When measuring lease liabilities for leases that were classified as operating leases, IAG discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 2.7%.

B. ISSUED BUT NOT YET EFFECTIVE

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting year.

None of these standards have been early adopted and applied in the current reporting year.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 17	Insurance Contracts	1 January 2021	B
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate	1 January 2022	A
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020	A
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	1 January 2020	A
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020	A
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2022	A
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	1 January 2022	A
AASB 2020-4	Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions	1 June 2020	A

TABLE NOTE

A These changes are not expected to have a significant, if any, financial and disclosure impact.

B The changes may have financial impact, however the assessment has not been completed yet. This standard is subject to change based on revisions issued by the IASB, including the effective date which has been proposed to be changed to 1 January 2023.

The Australian Accounting Standards and amendments detailed in the table above are not mandatory for IAG until the operative dates stated, however, early adoption is permitted. IAG currently plans to apply the standards and amendments detailed above for the reporting periods beginning on or after the operative dates set out above.

AASB 17 Insurance Contracts

AASB 17, the new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board on 19 July 2017 subsequent to being issued by the IASB on 18 May 2017. Since the standard was issued, various implementation matters have been raised by stakeholders and the IASB has considered these concerns and suggested targeted amendments to the standard. The proposed amendments have been considered by the IASB and industry constituents with a finalised standard issued on 10 July 2020. One of the changes to the standard, in addition to several others, is an agreed effective date for periods beginning 1 January 2023, with early adoption permitted.

The first applicable reporting period for IAG is expected to be the year ending 30 June 2024, with the comparative period for the year ending 30 June 2023. The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach (similar to *AASB 1023*) permitted in certain circumstances. IAG has completed a detailed impact assessment of the new standard and has determined that the Group is expected to be eligible to apply the simplified approach to the insurance contracts issued by the Group (based on the current portfolio mix). It is expected that there will be substantial changes in presentation of the financial statements and disclosures.

Given the complexity and differing interpretations around key requirements of the standard, the final impact of certain requirements may not be determined until global interpretations and regulatory responses to the new standard are finalised.

DIRECTORS' DECLARATION

In the opinion of the Directors of Insurance Australia Group Limited:

- the financial statements and Notes 1 to 8.5, including all the remuneration disclosures that are contained in the Remuneration Report of the Directors' Report, are in accordance with the *Corporations Act 2001* including:
  - giving a true and fair view of the financial position of the Group as at 30 June 2020 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date;
  - complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.2.B; and
- the Remuneration Report of the Directors' Report complies with the *Corporations Act 2001* and Australian Accounting Standards; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declaration required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2020.

Signed at Sydney this 7th day of August 2020 in accordance with a resolution of the Directors.

Peter Harmer
Director

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the Financial Report of Insurance Australia Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated balance sheet as at 30 June 2020;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated cash flow statement for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The Group consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The Key Audit Matters we identified are:

- Valuation of Gross outstanding claims liability
- Valuation of Reinsurance and other recoveries on outstanding claims
- Valuation of Goodwill and Investment in joint venture and associates
- Customer refund provision

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Gross outstanding claims liability ($10,584 million)

Refer to Note 2.2 of the Financial Report

The key audit matter	How the matter was addressed in our audit
Valuation of Gross outstanding claims liability is a key audit matter due to the following factors: ■ judgement is required by us to consider the central estimate of the gross outstanding claims liability. This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain; ■ there is limited information available and a greater level of uncertainty inherent in assessing the Group's estimations of claims which have been incurred by the balance sheet date but have not yet been reported to the Group;	We involved our actuarial specialists and senior personnel with deep industry experience. Our key procedures included: ■ comparing the Group's actuarial methodologies with the methodologies applied in the industry, prior periods and the requirements of accounting standards; ■ obtaining an understanding of the Group's governance processes, including Reserving Committees and actuarial control cycles for the valuation of the outstanding claims liabilities;

- judgement is required when considering the Group's application of historical experience of claims development to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay between the claim being incurred and the ultimate settlement. Examples include claims arising from Workers' Compensation, Liability, Compulsory Third Party (CTP) and the main Canterbury earthquakes of September 2010 and February 2011;
- claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, as well as judgements and assumptions about future events and developments, both within and external to the Group. Actuarial assumptions include loss ratios, claim frequency and average size of claims, and allowance for future claims inflation. Changes in methodologies, judgements and assumptions can have significant implications to the quantification of outstanding claims liabilities, as outlined in Note 2.2(E). Specific to the current environment, COVID-19 has caused significant disruption across Australia and New Zealand. As a result claims activity through the period may not be representative of future claims activity and judgement is required when considering the use of recent experience to determine outstanding claims liabilities;
- judgement is required to assess the Group's estimation of the probability of claims arising from circumstances connected with the COVID-19 pandemic. This includes interpretation of policy wordings, estimation of potential losses on a probability-weighted basis and the probable timing of the emergence of such potential claims;
- the Canterbury earthquake claims require judgement and technical actuarial expertise to evaluate the Group's attribution of claims costs between the September 2010 and the February 2011 Canterbury earthquake events;
- judgement is required to assess the Group's estimation of the periods the claims are expected to be settled in;
- the estimation of claims at year end relies on the integrity of the underlying data, including claim payments and individual estimates of unsettled claims, which is gathered from a number of different systems; and
- outstanding claims includes statistically determined risk margins developed by the Group to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified probability of adequacy for the total outstanding claims reserves. This is an area of significant complexity and judgement for us.

We involved actuarial specialists to supplement our senior audit team members with deep industry experience in assessing this key audit matter.

- evaluating the actuarial methodologies and the assumptions including loss ratios, claim frequency and average size of claims, ultimate claims costs and allowance for future claims inflation applied in the previous reporting period by comparing the actual claims development to the prior year claims liability estimate. We used the information to assess the current year's actuarial assumptions applied in the valuation;
- challenging key actuarial assumptions by comparing these to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends (e.g. APRA and regulatory statistics);
- evaluating the Group's assessment of COVID-19 on insurance liabilities including key judgements in relation to potential claims arising from circumstances connected with the COVID-19 pandemic;
- evaluating the attribution of claims cost to Canterbury earthquake events, by comparing these to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends;
- considering judgements by the Group to estimate the period in which the claims will be settled by analysing historical payment patterns and any significant changes;
- assessing the risk margin parameters for significant portfolios to external sources of data including published statistics (e.g. APRA-published data), prior periods and our industry knowledge;
- critically evaluating the Group's judgment in the execution of the outstanding claims liability calculations by comparing the overall results to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends (e.g. listed competitors);
- for certain classes of business we independently projected the gross outstanding claims liability by applying our own actuarial methodologies and selecting assumptions for those methodologies. We used this re-projection to compare our results to the Group's estimates and challenge any significant differences;
- our procedures for testing key inputs such as claim payments and estimates of unsettled claims into the valuation, financial records and controls included:
  - testing accounting and actuarial controls, such as reconciliations of key data. We involved our IT specialists for testing data integrity risks within the claims process and claims systems;
  - testing key controls (e.g. reconciliations, limits of authority or segregation of duties) within the estimation of claims case estimates and claims payments;
  - testing samples of claims case estimates and paid claims to third party evidence (such as quotes or invoices); and
- assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Valuation of Reinsurance and other recoveries on outstanding claims ($6,069 million)
Refer to Note 2.2 of the Financial Report

The key audit matter

The valuation of reinsurance and other recoveries on outstanding claims is a Key Audit Matter as:

- reinsurance and other recoveries are quantified from claims case estimates, paid claims data and estimates of ultimate claims settlement amounts;

How the matter was addressed in our audit

In addition to the audit procedures undertaken to assess the valuation of gross outstanding claims liability above, our procedures included:

- testing a sample of key controls for entering reinsurance arrangements;

- the Group has extensive reinsurance arrangements designed to protect its aggregate exposure to catastrophic claim events; and
- the Group also has a range of significant reinsurance contracts, including the whole-of-account quota share arrangements, the catastrophe excess of loss program, adverse development covers in the form of excess of loss contracts, and other quota share arrangements.

Our consideration of the accounting treatment across multiple contracts, assessment of recoverability in line with the reinsurance agreements (including those pertaining to the claims liabilities connected with the COVID-19 pandemic), the assessment of counterparty credit worthiness and capital strength requires significant effort by our senior personnel.

- evaluating a sample of reinsurance recoveries held to underlying contracts to assess the existence of cover the contracts provide. We selected our sample across different arrangements and contract types. We also tested the appropriateness of the recognition of the reinsurance recoveries held (including those pertaining to the claims liabilities connected with the COVID-19 pandemic) in the financial statements, with reference to accounting standards and our expectations based on past experience and our industry knowledge;
- evaluating a sample of reinsurance recoveries for whole-of-account quota share contracts. We referred to the key terms of the reinsurance contracts, and applied them to the Group's underlying claims estimates and paid claims data as tested above to recalculate the reinsurance and other recoveries due. These independently generated results were compared to the amounts recognised by the Group;
- assessing the recoverability of balances owed by reinsurer counterparties by considering their credit worthiness and capital strength based on external sources of information, payment history of amounts and evaluation of any indicators of disputes with counterparties; and
- assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Valuation of Goodwill ($2,862 million) and Investment in joint venture and associates ($351 million)

Refer to Notes 5.1 and 6.5 of the Financial Report

The key audit matter

Valuation of goodwill and investment in joint venture and associates is a Key Audit Matter as:

- judgement is involved by us in assessing the cash-generating units identified by the Group;
- our evaluation of potential impairment involves applying judgement by us in relation to the Group's forecast cash flows and key forward looking assumptions. Instances where judgement is required by us include discount rates, risk premium, growth rates, profit measures and terminal growth rates. We focused specifically on those cash-generating units and associates where there were potential impairment indicators (e.g. performance compared to budget);
- the Group uses complex discounted cash flow models to perform their annual testing of goodwill for impairment. The models use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, particularly those containing highly judgemental allocations of corporate costs to cash-generating units, using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application; and
- significant judgement was required as a result of the current COVID-19 environment. COVID-19 has caused significant disruption across the countries in which the Group operates. As a result there is increased judgement in forecasting cash flows and assumptions used in the discounted cash flow models.

We involved valuation and IT specialists to supplement our senior audit team members in assessing this key audit matter.

How the matter was addressed in our audit

With the assistance of our valuation specialists, our procedures included:

- evaluating the Group's determination of their cash-generating units based on our knowledge of the business, and understanding of the industries in which the Group operates, against the accounting standard requirements;
- performing sensitivity testing, using the Group's models, to evaluate the impact of varying key assumptions such as growth rates and discount rates within a reasonably possible range. This enabled us to critically challenge the Group's quantification of assumptions and focus our procedures to the most sensitive assumptions;
- assessing the Group's key assumptions used in the discounted cash flow models such as discount rates, risk premium, growth rates, profit measures and terminal growth rates by comparing them to external, observable metrics (e.g. GDP growth and inflation including forecasts provided by Oxford Economics and IBIS World), historical experience, our knowledge of the markets, and current market practice;
- considering the appropriateness of the discounted cash flow methodology applied by the Group to perform the annual test of impairment against the requirements of the accounting standards;
- comparing the forecast cash flows contained in the discounted cash flow models to Board reviewed budgets and business plans; assessing the accuracy of past budgets to actual cash flows in order to challenge the Group's current forecasts;
- considering and challenging the Group's assessment of the impact of COVID-19 on cash flows and assumptions as well as its assessment of a likely recovery period. As part of our sensitivity testing and assessment of model assumptions detailed above, we included specific analysis of reasonably possible impacts of COVID-19 specific to each CGU;
- comparing the valuations for a sample of joint ventures and associates to external and observable valuations for broadly similar enterprises, and investigating significant outliers;

- assessing the Group's allocation of corporate costs to the forecast cash flows contained in the value-in-use model, based on the requirements of the accounting standard and our understanding of the business;
- involving our specialists, we evaluated the internally prepared discounted cash flow model. This included:
  - assessing the valuation approach and methodology against market and industry practices and accounting standards; and
  - assessing the integrity of the models used, including the accuracy of the underlying formulas; and
- assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Customer refund provision ($270 million)
Refer to Note 5.3C to the Financial Report

The key audit matter	How the matter was addressed in our audit
Customer refund provision is a Key Audit Matter as: ■ judgement is involved in determining the existence of a present obligation arising as a result of a past event; ■ judgement is involved in determining a reliable estimate of the amounts which may be ultimately paid based on available information arising from investigations, including estimates of related costs; and ■ our consideration of the accounting treatment and valuation of the provision requires significant effort by our senior personnel.	Our procedures included: ■ obtaining an understanding of the Group's processes for identifying and assessing the financial impact of customer refund payments and associated project costs to confirm a present obligation exists in accordance with the criteria in the accounting standards; ■ inspecting correspondence with relevant regulatory bodies; ■ assessing the methodologies applied against both internal and external information available; ■ understanding, and challenging the assumptions used based on available information utilised to identify policyholders impacted in order to estimate the provision amounts; ■ testing completeness by evaluating where exposures may have arisen based on the Group's documentation including on a sample basis, tracing individual policies back to underlying calculations to determine the appropriateness of its inclusion or exclusion in the provision amount; ■ testing a sample of estimated customer refund amounts by independently recalculating them, using the same assumptions and methodologies as management and checking to underlying policy documents; ■ assessing the nature and quantum of management's estimation of project costs against expectations and industry ranges; ■ enquiry into the status of the Group's ongoing reviews into other pricing system and process matters; and ■ assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Insurance Australia Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

Opinion

In our opinion, the Remuneration Report of Insurance Australia Group Limited for the year ended 30 June 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 26 to 46 of the Directors' Report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Andrew Yates
Partner

Ian Moyser
Partner

Sydney
7 August 2020

SHAREHOLDER INFORMATION

Information about Insurance Australia Group Limited including Company announcements, presentations and reports can be accessed at www.iag.com.au.

ASX CODES

Insurance Australia Group Limited's ordinary shares are listed on the ASX under IAG and its capital notes are listed on the ASX under IAGPD.

ANNUAL REPORT

Under the *Corporations Act 2001* regarding the provision of Annual Reports to shareholders, the default option for receiving Annual Reports is an electronic copy via IAG's website at www.iag.com.au.

ANNUAL GENERAL MEETING

The 2020 annual general meeting (AGM) of Insurance Australia Group Limited will commence at 10am on Friday, 23 October 2020. In light of the COVID-19 pandemic, our AGM this year will be held virtually for all shareholders through the online AGM platform at https://web.lumiagm.com. The Board of Directors will attend in person to the extent they are able to do so in a safe and permissible manner. The AGM will be webcast live on the internet at www.iag.com.au/shareholder-centre/annual-meetings and an archived version will be placed on the website after the event to enable the AGM to be viewed at a later time.

ONLINE VOTING

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2020 AGM at www.iag.com.au. The information required to log on and use online voting is shown on the Notice and Access Letter.

SHAREHOLDER QUESTIONS

If shareholders would like to submit a written question to the Company or the Company's auditor with regard to the AGM or any of the resolutions to be discussed, shareholders should send their questions to the Share Registry, Computershare Investor Services PTY LTD, GPO BOX 242, Melbourne VIC 3001, Australia or by fax to +61 (0)3 9473 2555. Questions for the auditor must be received by 5pm on 16 October 2020.

Shareholders may also submit a question after completing their voting instructions online at www.iag.com.au. Shareholders will also be given a reasonable opportunity to ask questions of the Company and the auditor at the AGM.

During the course of the AGM, IAG intends to answer as many of the frequently asked questions as practicable but will not be responding to individual written questions. Responses to the most commonly asked questions will be added to the website at www.iag.com.au/shareholder-centre/annual-meetings.

DIVIDEND PAYMENT METHODS

Insurance Australia Group Limited does not issue dividend payments by cheque to shareholders resident in Australia. Shareholders should provide the share registry with their alternative instructions as detailed below:

IAG ordinary shares

- Paid directly into a New Zealand bank account or to an Australian bank, credit union, building society or nominated account; or
- Eligible shareholders can choose to participate in the Company's Dividend Reinvestment Plan (DRP), if available, providing the option to increase their shareholding without incurring brokerage or GST.

MANAGEMENT OF HOLDING

Using their Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode of their registered address, shareholders can view their holding online through IAG's share registry, Computershare, by following the easy prompts on their website at www.investorcentre.com where shareholders will be able to:

- view holding balance;
- review dividend payment history;
- access shareholder forms; and
- retrieve holding statements, including recent dividend payment advices.

The share registry investor centre site also allows shareholders to update or add details to their shareholding. If shareholders wish to amend or update any of the current details, they will be asked to register by choosing a User ID and Password.

Shareholders will also be asked to enter answers to three personal questions for verification purposes should they forget their password in the future.

If shareholders have previously used the Investor Centre site, they will be asked to key in their password only.

Once shareholders have completed these steps, they are then able to update their details and submit their changes to the share register including:

- change or amend their address if they are registered with an SRN;
- nominate or amend their direct credit payment instructions;
- set up or amend their DRP instructions;
- sign up for electronic shareholder communications, including the annual report via email; and
- add/change tax file number (TFN) / Australian business number (ABN) details.

A confirmation/receipt number will be shown on-screen for the online transaction which should be recorded should shareholders have a question in the future.

Shareholders are strongly advised to lodge their TFN, ABN or exemption. If they choose not to lodge these details with the share registry, then IAG is obliged to deduct tax at the highest marginal tax rate (plus the Medicare levy) from the unfranked portion of any dividend or interest payment.

Shareholders may also complete a number of transactions or request a form over the phone by contacting the share registry on 1300 360 688.

EMAIL ALERT SERVICE

Shareholders can register to receive an email alert advising of new IAG media releases, financial announcements or presentations. Shareholders simply need to visit IAG's website at www.iag.com.au, click on the email alert button in the right-hand margin and register their email address.

IAG has an email alert service that allows shareholders to choose to receive email alerts about specific subjects (annual meetings, annual reports, careers information, company announcements, government submissions, results and sustainability reports).

EMAIL ENQUIRIES

If shareholders have a question, they can email their enquiry directly to IAG's share registry at iag@computershare.com.au. If their question relates to an IAG company matter and the answer is not on IAG's website, they can email their question to investor.relations@iag.com.au.

ORDINARY SHARES INFORMATION

TWENTY LARGEST ORDINARY SHAREHOLDERS AS AT 7 JULY 2020	NUMBER OF SHARES	% OF ISSUED SHARES
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	571,239,539	24.72
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	399,215,474	17.27
CITICORP NOMINEES PTY LIMITED	157,823,121	6.83
NATIONAL INDEMNITY COMPANY	87,612,209	3.79
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	68,328,766	2.96
NATIONAL NOMINEES LIMITED	62,041,580	2.68
BNP PARIBAS NOMS PTY LTD <DRP>	17,396,923	0.75
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	17,055,425	0.74
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	13,928,665	0.60
IAG SHARE PLAN NOMINEE PTY LIMITED <IAG DAP UNALLOCATED ACCOUNT>	6,336,741	0.27
MILTON CORPORATION LIMITED	6,026,948	0.26
ARGO INVESTMENTS LIMITED	4,910,330	0.21
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	4,730,114	0.20
AMP LIFE LIMITED	3,887,109	0.17
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	3,731,510	0.16
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	3,521,945	0.15
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,227,951	0.14
BKI INVESTMENT COMPANY LIMITED	3,063,446	0.13
MUTUAL TRUST PTY LTD	2,981,473	0.13
DJERRIWARRH INVESTMENTS LIMITED	2,722,221	0.12
Total for top 20	1,439,781,490	62.28

RANGE OF ORDINARY SHAREHOLDERS AS AT 7 JULY 2020	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED SHARES
1-1,000	381,687	199,909,899	8.65
1,001-5,000	245,095	462,892,498	20.03
5,001-10,000	12,692	86,671,993	3.75
10,001-100,000	4,295	81,766,298	3.54
100,001 and over	102	1,479,805,895	64.03
Total	643,871	2,311,046,583	100.00
Shareholders with less than a marketable parcel of 87 shares as at 7 July 2020	6,580	220,330	

DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
Ordinary	Interim	70% franked	10.0 cents	$6.5815	25 March 2020
Ordinary	Final	Not applicable	- cents	Not applicable	Not applicable

SUBSTANTIAL SHAREHOLDINGS INFORMATION

SUBSTANTIAL SHAREHOLDERS AS AT 7 JULY 2020	NUMBER OF SHARES	% OF ISSUED SHARES
Ordinary shares		
BlackRock Group	141,377,642	6.11

IAGPD CAPITAL NOTES INFORMATION

TWENTY LARGEST CAPITAL NOTE HOLDERS AS AT 7 JULY 2020	NUMBER OF NOTES	% OF ISSUED NOTES
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	448,485	11.10
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	260,755	6.45
NATIONAL NOMINEES LIMITED	122,668	3.04
BNP PARIBAS NOMS PTY LTD <DRP>	80,969	2.00
CITICORP NOMINEES PTY LIMITED	76,556	1.89
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	73,614	1.82
NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C>	66,345	1.64
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	65,062	1.61
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	60,925	1.51
MUTUAL TRUST PTY LTD	60,639	1.50
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	50,151	1.24
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	48,153	1.19
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	27,646	0.68
INVIA CUSTODIAN PTY LIMITED <INCOME POOL A/C>	24,925	0.62
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	19,592	0.48
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS IDPS A/C>	18,211	0.45
THE WYATT BENEVOLENT INSTITUTION INC	15,517	0.38
TRUSTEES OF CHURCH PROPERTY FOR THE DIOCESE OF NEWCASTLE <SAVINGS & DEVELOPMENT A/C>	12,870	0.32
CITICORP NOMINEES PTY LIMITED <DPSL>	12,827	0.32
INVIA CUSTODIAN PTY LIMITED < RISF A/C>	12,500	0.31
Total for top 20	1,558,410	38.55

RANGE OF CAPITAL NOTE HOLDERS AS AT 7 JULY 2020	NUMBER OF HOLDERS	NUMBER OF NOTES	% OF ISSUED NOTES
1-1,000	4,476	1,411,893	34.93
1,001-5,000	402	807,858	19.99
5,001-10,000	34	239,319	5.92
10,001-100,000	19	750,287	18.57
100,001 and over	3	831,908	20.59
Total	4,934	4,041,265	100.00
Capital note holders with less than a marketable parcel of 5 notes as at 7 July 2020	4	9	

CORPORATE DIRECTORY

KEY DATES

2020 financial year end	30 June 2020
Full year results and dividend announcement	7 August 2020
Notice of Access letter and Notice of Meeting available on website	10 September 2020
Annual general meeting information	
■ Written questions for the auditor close	16 October 2020
■ Proxy return close	21 October 2020
■ Annual general meeting	23 October 2020
Half year end	31 December 2020
Half year results and dividend announcement	10 February 2021*
Interim dividend for ordinary shares	
■ Record date	17 February 2021*
■ Payment date	30 March 2021*
2021 financial year end	30 June 2021
Full year results and dividend announcement	11 August 2021*

* Please note: dates are subject to change. Any changes will be published via a notice to the Australian Securities Exchange (ASX).

CONTACT DETAILS

Share registry
Computershare Investor Services Pty Limited
GPO Box 4709
Melbourne VIC 3001
Australia

Hand deliveries to
Level 3
60 Carrington Street
Sydney NSW 2000

Telephone
(within Australia) 1300 360 688
(outside Australia) +61 (0)3 9415 4210

Fax
(general) +61 (0)3 9473 2470

Email
iag@computershare.com.au

Registered office
Insurance Australia Group Limited
Level 13, Tower Two, Darling Park
201 Sussex Street
Sydney NSW 2000
Australia

Telephone
+61 (0)2 9292 9222

Fax
+61 (0)2 9292 8072

Website
www.iag.com.au

FIVE-YEAR FINANCIAL SUMMARY

	2020	2019	2018	2017[13]	2016
	$m	$m	$m	$m	$m
Gross written premium	**12,135**	12,005	11,647	11,439	11,367
Gross earned premium	**12,164**	11,942	11,522	11,321	11,411
Outwards reinsurance premium expense	**(4,801)**	(4,704)	(3,851)	(3,122)	(3,183)
Net premium revenue	**7,363**	7,238	7,671	8,199	8,228
Net claims expense	**(5,010)**	(4,619)	(4,617)	(5,082)	(5,397)
Net underwriting expense	**(1,757)**	(1,716)	(1,877)	(2,079)	(2,116)
Underwriting profit[1]	**596**	903	1,177	1,038	715
Net investment income on assets backing insurance liabilities	**145**	321	230	232	463
Management reported insurance profit[1]	**741**	1,224	1,407	1,270	1,178
Net investment (loss)/income from shareholders' funds	**(181)**	227	165	246	97
Other income	**441**	111	164	180	204
Share of net profit of associates[2]	**57**	42	31	19	17
Finance costs	**(92)**	(94)	(82)	(93)	(99)
Corporate and administration expenses[3]	**(404)**	(124)	(185)	(222)	(423)
Acquired intangible amortisation and impairment	**(27)**	(54)	(90)	(57)	(54)
Profit before income tax	**535**	1,332	1,410	1,343	920
Income tax expense	**(37)**	(363)	(384)	(328)	(218)
Profit after tax from continuing operations	**498**	969	1,026	1,015	702
(Loss)/profit after tax from discontinued operations	**(4)**	204	(25)	(10)	-
Net profit attributable to non-controlling interests	**(59)**	(97)	(78)	(76)	(77)
Net profit attributable to shareholders of the Parent	**435**	1,076	923	929	625
Cash earnings[4]	**279**	931	1,034	990	867
Ordinary shareholders' equity ($ million)	**6,077**	6,404	6,669	6,562	6,563
Total assets ($ million)	**29,694**	29,286	29,766	29,597	30,030
KEY RATIOS					
Gross written premium growth	**1.1 %**	3.1 %	1.8 %	n/a	(0.6)%
Loss ratio[5]	**68.0 %**	63.8 %	60.2 %	62.0 %	65.6 %
Expense ratio[6]	**23.8 %**	23.7 %	24.5 %	25.3 %	25.7 %
Combined ratio[7]	**91.8 %**	87.5 %	84.7 %	87.3 %	91.3 %
Reported insurance margin[8]	**10.1 %**	16.9 %	18.3 %	15.5 %	14.3 %
Underlying insurance margin[9]	**16.0 %**	16.6 %	14.1 %	12.4 %	14.0 %
SHARE INFORMATION					
Dividends per ordinary share (cents)[10]	**10.00**	37.50	34.00	33.00	36.00
Basic earnings per ordinary share (cents)[11]	**18.87**	46.26	39.06	39.03	25.79
Basic earnings per ordinary share - cash basis (cents)[12]	**12.12**	40.04	43.78	41.60	35.78
Diluted earnings per ordinary share (cents)[11]	**18.49**	44.58	38.30	37.72	25.34
Diluted earnings per ordinary share - cash basis (cents)[12]	**12.12**	38.83	42.75	40.13	34.76
Ordinary share price at 30 June ($) (ASX: IAG)	**5.77**	8.26	8.53	6.78	5.45
Capital notes price at 30 June ($) (ASX: IAGPD)	**103.54**	106.95	104.67	106.53	-
Issued ordinary shares (million)	**2,311**	2,311	2,367	2,367	2,431
Issued capital notes (million)	**4**	4	4	4	-
Market capitalisation (ordinary shares) at 30 June ($ million)	**13,334**	19,089	20,191	16,048	13,249
Net tangible asset backing per ordinary share ($)	**1.27**	1.43	1.47	1.36	1.30

(1) The amounts for the 2020 and 2016 financial years are presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure. A reconciliation between the two is outlined in the Reconciliation Between The Statutory Results (IFRS) And The Management Reported (Non-IFRS) Results section of the Directors' Report in this report and the Operating and Financial Review section of the Directors' Report in the 30 June 2016 Annual Report.
(2) Share of net profit of associates includes regional support and development costs.
(3) Includes a $246 million pre-tax net impact of the customer refund provision for 2020 and a $198 million impairment of capitalised software for 2016.
(4) Cash earnings represent non-IFRS financial information. It is defined as net profit after tax attributable to shareholders of the Parent, plus amortisation and impairment of acquired identifiable intangibles, and excluding any unusual items (non-recurring in nature).
(5) The loss ratio refers to the net claims expense as a percentage of net premium revenue.
(6) The expense ratio refers to net underwriting expense as a percentage of net premium revenue.
(7) The combined ratio refers to the sum of the loss ratio and expense ratio.
(8) Reported insurance margin is a ratio of insurance profit over net premium revenue.
(9) Underlying insurance margin is defined as the reported insurance margin adjusted for net natural peril claim costs less related allowance for the period, reserve releases in excess of 1% of NEP and credit spread movements.
(10) The dividends per ordinary share are partially franked for the 2019 to 2020 financial years, and fully franked for the 2016 to 2018 financial years.
(11) Reflects basic and diluted earnings per ordinary share on an accounting basis.
(12) Basic and diluted earnings per ordinary share on a cash basis are calculated with reference to cash earnings.
(13) The financial information for 2017 has been re-presented to reflect the changed treatment of the Asian businesses as discontinued operations. Financial information for 2016 is not re-presented.

PEFC
PEFC/21-31-119

Pacesetter Laser Recycled is 30% recycled and made up from elemental chlorine free bleached pulp which is PEFC™ certified sourced from sustainably managed sources. It is manufactured by an ISO 14001 certified mill.

Australia

New Zealand

1 IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% owned by RACV.

2 IAG owns 100% of Insurance Australia Limited (IAL), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with IAL.