**INSURANCE AUSTRALIA GROUP LIMITED**
**PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2022**

**APPENDIX 4E (ASX Listing rule 4.3A)**

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | **2022** | 2021 | **CHANGE** | | |
|---|---|---|---|---|---|
| | **$m** | $m | | **$m** | %* |
| Revenue from ordinary activities | **18,347** | 18,895 | Down | (548) | (2.9)% |
| Net profit/(loss) after tax from ordinary activities attributable to shareholders of the Parent from continuing operations | **347** | (414) | Up | 761 | (183.8)% |
| Net profit/(loss) after tax from ordinary activities attributable to shareholders of the Parent from discontinued operations | **-** | (13) | Up | 13 | (100.0)% |
| Net profit/(loss) attributable to shareholders of the Parent | **347** | (427) | Up | 774 | (181.3)% |

* The percentage change is calculated by dividing the movement between the current and prior years with the prior year amount and multiplying the result by 100. In relation to the year-on-year change in net profit/(loss), the negative percentages have arisen as the current year recognised a net profit and the prior year a net loss.

| **DIVIDENDS – ORDINARY SHARES** | **AMOUNT PER SECURITY** | **FRANKED AMOUNT PER SECURITY** |
|---|---|---|
| Final dividend | 5.0 cents | 3.5 cents |
| Interim dividend | 6.0 cents | - cents |

| **FINAL DIVIDEND DATE** | |
|---|---|
| Record date | 19 August 2022 |
| Payment date | 22 September 2022 |

The Company's Dividend Reinvestment Plan (DRP) will operate likely by acquiring shares on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 22 August 2022. The DRP Issue Price will be based on a volume-weighted average price for a 5-day trading window from 29 August 2022 to 2 September 2022 inclusive.

Eligible shareholders may now lodge their DRP elections electronically by logging on to IAG's share registry, Computershare, on their website at www.computershare.com.au.

This Appendix 4E for the financial year ended 30 June 2022 is filed with the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A. Additional Appendix 4E disclosure requirements can be found in the Annual Report of Insurance Australia Group Limited for the year ended 30 June 2022 (Attachment A). This report is also to be read in conjunction with any public announcements made by Insurance Australia Group Limited during the reporting year in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules. Information presented for the previous corresponding period is for the financial year ended 30 June 2021 (unless otherwise stated).

The report is based on the consolidated financial statements which have been audited by KPMG.

# ATTACHMENT A

# INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

# ANNUAL REPORT 30 JUNE 2022

# Annual Report 2022

**Insurance Australia Group Limited**
ABN 60 090 739 923

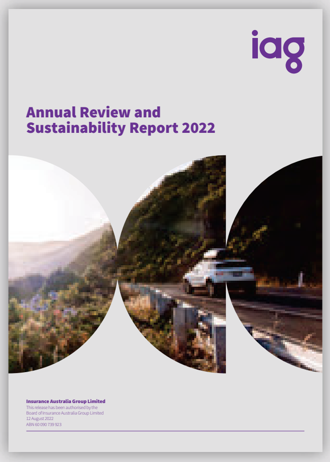
# CONTENTS



# ABOUT THIS REPORT

**The 2022 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 2022. 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. All figures are in Australian dollars unless otherwise stated.




## Annual Review and Sustainability Report 2022

This report should be read with the Annual Review and Sustainability Report 2022, which provides a summary of IAG's operating performance, including the Chairman's and CEO's reviews.

Our Annual Review and Sustainability Report 2022 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 and Sustainability Report mailed to you, contact IAG's Share Registry using the contact details on page 119.

## 2022 annual general meeting

The 2022 annual general meeting (AGM) of Insurance Australia Group Limited will commence at 9.30am on Friday, 21 October 2022.

# DIRECTORS' REPORT

The Directors present their FY22 Annual Report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries and the Auditor's Report. This report covers the reporting period 1 July 2021 to 30 June 2022 and where appropriate, references events that have occurred since the end of this period, but before publication.

The following terminology is used throughout the financial report:

- Company or Parent – Insurance Australia Group Limited; and
- IAG or Group – the consolidated group 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

**THOMAS (TOM) W POCKETT**

**BCom, CA – Chairman and Independent Non-Executive Director**

INSURANCE INDUSTRY EXPERIENCE

Tom Pockett was appointed a Director of IAG on 1 January 2015 and became Chairman at the conclusion of the 2021 Annual General Meeting (AGM) on 22 October 2021. He is Chairman of the Nomination Committee since 22 October 2021 and attends all other Board committee meetings in an ex-officio capacity. Tom is also Chairman of Insurance Manufacturers of Australia Pty Limited.

OTHER BUSINESS AND MARKET EXPERIENCE

Tom is Chairman and Non-Executive Director of Stockland Group and a Non-Executive Director of O'Connell Street Associates. He was previously Chief Financial Officer and then Finance Director with Woolworths Limited, and retired from Woolworths Limited in July 2014. Tom has also held senior finance roles at the Commonwealth Bank, Lendlease Corporation and Deloitte.

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

- Stockland Group, since 2014; and
- Autosports Group Limited (2016 – 2021).

### MANAGING DIRECTOR

**NICHOLAS (NICK) B HAWKINS**

**BCom, FCA – Managing Director and Chief Executive Officer, Executive Director**

INSURANCE INDUSTRY EXPERIENCE

Nick Hawkins was appointed Managing Director and Chief Executive Officer of IAG on 2 November 2020.

Nick previously held the role of Deputy Chief Executive Officer, accountable for the management and performance of IAG's day-to-day operations. He previously spent 12 years as IAG's Chief Financial Officer, responsible for the financial affairs of the Group. Prior to this, Nick was Chief Executive Officer of IAG New Zealand and has also held a number of roles within finance and asset management since joining the Group in 2001.

Nick was appointed to the position of President of the Insurance Council of Australia (ICA) in December 2021 and commenced as President on 1 January 2022.

OTHER BUSINESS AND MARKET EXPERIENCE

Before joining IAG, Nick was a Partner with the international accounting firm KPMG.

Nick is a graduate of the Harvard Advanced Management Program.

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

- IAG Finance (New Zealand) Limited (formerly part of the Group) (2008 – 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 and Risk Committee.

Simon has been a Non-Executive Director of IAG's wholly-owned subsidiary, IAG New Zealand Limited since 1 September 2015 and was appointed its Chairman on 22 November 2019.

OTHER BUSINESS AND MARKET EXPERIENCE

Simon has over 35 years of commercial experience in the New Zealand and Australian capital markets and was Chief Executive of the investment bank BZW/ABN AMRO in New Zealand for 21 years. He is a Trustee of the New Zealand Antarctic Heritage Trust and was Chair of Channel Infrastructure NZ Limited (previously known as The New Zealand Refining Company Limited).

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

Simon is a Chartered Fellow of the New Zealand Institute of Directors.

Directorships of other listed companies held in the past three years:
- Channel Infrastructure NZ Limited (previously known as The New Zealand Refining Company Limited) (2014 – 2022).

**DAVID H ARMSTRONG**
**BBus, FCA, MAICD – Independent Non-Executive Director**
INSURANCE INDUSTRY EXPERIENCE
David Armstrong was appointed a Director of IAG on 1 September 2021 and became Chairman of the Audit Committee on 22 October 2021. He is also a member of the Risk Committee.

OTHER BUSINESS AND MARKET EXPERIENCE
David is a former Partner of PricewaterhouseCoopers, with more than 40 years of experience in professional services. He has a deep knowledge and understanding of banking and capital markets, real estate and infrastructure, and is well versed in reporting, regulatory and risk challenges faced by the industry.

David is a Non-Executive Director of the National Australia Bank, where he chairs the Audit Committee, and is a member of its Risk & Compliance Committee. He is also the President of the Australian Museum Trust, Chair of The George Institute for Global Health, Director of the Opera Australia Capital Fund Limited and the Trustee of Lizard Island Reef Research Foundation.

David is a Fellow of the Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors.

Directorships of other listed companies held in the past three years:
- National Australia Bank, since 2014.

**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.

OTHER BUSINESS AND MARKET EXPERIENCE
Sheila is a Partner at Gilbert + Tobin, advising on business-critical technology, data, privacy and digital issues.

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 has been Chairman of the Risk Committee since 10 February 2021 and a member of the People and Remuneration Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE
Jon is Non-Executive Chairman of QuintessenceLabs, a Director of Westpac Bicentennial Foundation and a Non-Executive Director of Cape York Partnerships.

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 includes senior roles with a variety of financial and corporate institutions, including the Boston Consulting Group. He has 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 AC**
**BA (Hons), PhD, MBA (Dist), 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 and Nomination 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

Helen has extensive financial services experience, having been Chairman of Funds SA and Veda Group and a Non-Executive Director of Macquarie Group 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 and telecommunications. Currently, she is Chairman of Ausgrid, and previously was a Non-Executive Director of Origin Energy. She is also the Senior Independent Director at TPG Telecom.

Helen has given back extensively to the community in arts, education and health and disability. In arts, she has been Chairman of the National Portrait Gallery of Australia, the National Opera Review, the Major Performing Arts Inquiry, and the Major Performing Arts Board of the Australia Council. In education, she was Chancellor of Bond University and President of Cranbrook School. In disability and health, she was Chairman of the National Disability Insurance Agency, and is currently a Non-Executive Director of the Garvan Institute for Medical Research. Helen was appointed Chairman of the Order of Australia Association Foundation Limited effective August 2022.

She was made a Companion of the Order of Australia (AC) in January 2022, having previously received an AO and a Centenary Medal. She has also been 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 2020.

**SCOTT J PICKERING**

**ANZIIF – Independent Non-Executive Director**

INSURANCE INDUSTRY EXPERIENCE

Scott Pickering was appointed to the IAG Board on 1 November 2021 and is a member of the Audit Committee.

Scott has been a Chief Executive and is a senior leader in the global insurance industry with over 30 years of experience in the sector. He is a Non-Executive Director in state-owned Kiwibank and a former Non-Executive Director for Chubb Insurance in Australia and New Zealand.

Scott was formerly regional Chief Executive Officer for one of the world's largest insurance brokers, Willis Towers Watson, for Central and Eastern Europe, the Middle East and Africa. Prior to Willis Towers Watson, Scott worked for Royal & Sun Alliance Insurance as Regional Chief Executive Officer for Asia and the Middle East. He has also held senior regional leadership and Chief Executive roles at ACE Insurance and CIGNA in the Asia-Pacific region and South Africa.

Scott previously held the position of Chief Executive of the Accident Compensation Corporation, which provides comprehensive, no-fault personal injury cover for all New Zealanders. He stepped down from the role at the end of June 2021.

Scott is a member of the Australian and New Zealand Institute of Insurance and Finance.

OTHER BUSINESS AND MARKET EXPERIENCE

Scott is currently an advisor for Bain International Inc. and Health Now Limited and a Director in Engage Consulting Limited.

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

- None.

**GEORGE D SARTOREL**

**MBA from Heriot-Watt University – Independent Non-Executive Director**

INSURANCE INDUSTRY EXPERIENCE

George Sartorel was appointed to the IAG Board on 1 September 2021. He is a member of the People and Remuneration Committee and the Risk Committee.

George is a globally proven insurance Chief Executive Officer, with extensive operational, business and technology experience spanning property, casualty, health, life insurance and asset management. In an extensive career at Allianz, George has worked across a large variety of roles and countries and has led countries and regions of scale and formed strategic alliances.

George began his career as the Chief General Manager of Allianz Australia. Before becoming the Asia-Pacific Chief Executive Officer of Allianz, George was the Chief Executive Officer of Allianz Italy and Allianz Turkey. He is the former Chair of Allianz Asia Advisory Council and member of the Allianz Australia Group. He was also a member of the Allianz International Executive Committee and the founding member of Allianz X, the corporate venture capital company that invested in innovative digital start-ups. George is considered one of Allianz's most technologically oriented and innovatively minded leaders.

George is also a Non-Executive Director of Prudential plc and previously served as a Director of BIMA.

OTHER BUSINESS AND MARKET EXPERIENCE

George has served as a member of the Financial Centre Advisory Panel (Monetary Authority of Singapore).

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

- Prudential plc, since 2022

**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 has been Chairman of the People and Remuneration Committee since 10 February 2021 and a member of the 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 Chief Executive Officer of Sigma Company (now Sigma Healthcare) (1996-2000).

OTHER BUSINESS AND MARKET EXPERIENCE

George has been a Non-Executive Director of New Zealand's Exchange (NZX) listed entity, Ryman Healthcare since July 2013 and BuildXACT Software Limited since July 2021. He was Non-Executive Chairman of the Australian Securities Exchange (ASX) listed biotech company Next Science (2018-2021) and has been 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 has 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 (2018 – 2021).

**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 and Risk Committee.

Michelle has held a number of senior executive roles in major Australian companies, including National Australia Bank, MLC and Suncorp. She has over 25 years of experience in financial services with roles spanning Chief Information Officer, Head of Strategy and Corporate Development and senior leadership roles in corporate superannuation, insurance and wealth management businesses.

OTHER BUSINESS AND MARKET EXPERIENCE

Michelle was appointed as a Non-Executive Director of First Sentier Investors in June 2020 and Zafin Labs Americas Incorporated in May 2021. She has been a Director of Cricket Australia since 2015 and Urbis Pty Ltd since 2016. She is a former Chair of the IAG & NRMA Superannuation Fund (2012-2018).

Directorships of other listed companies held in the past three years:
- Bank of Queensland Limited (2011 – 2020).

## DIRECTORS WHO CEASED DURING THE FINANCIAL YEAR

- Elizabeth Bryan was a Non-Executive Director from 5 December 2014 to 22 October 2021.
- Duncan Boyle was a Non-Executive Director from 23 December 2016 to 22 October 2021.

## 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.

**JANE BOWD**

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

Jane Bowd joined IAG as Group Company Secretary and Corporate Counsel in June 2020 and leads IAG's Company Secretariat Team, responsible for Board and enterprise governance.

Jane was previously Group Company Secretary and Corporate Counsel at Coca-Cola Amatil, and prior to that was 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 Master of Laws, Graduate Diploma of Applied Corporate Governance, 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's corporate governance skills were recognised nationally when she was awarded the inaugural Company Secretary of the Year Award at the Australian Law Awards in 2019, and then again in 2020.

Jane retired as an Independent Non-Executive Director of the Financial Planning Association of Australia (FPA), including as Committee Member on the FPA's Board Audit and Risk Management Committee, and Governance and Remuneration Committee, in March 2022.

## MEETINGS OF DIRECTORS

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

| DIRECTOR | BOARD OF DIRECTORS | | PEOPLE AND REMUNERATION COMMITTEE | | AUDIT COMMITTEE | | RISK COMMITTEE | | BOARD SUB COMMITTEE[5] | | NOMINATION COMMITTEE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total number of meetings held | 14 | | 9 | | 5 | | 8 | | 15 | | 2 | |
| | Required to attend | Attended | Required to attend | Attended | Required to attend | Attended | Required to attend | Attended | Required to attend | Attended | Required to attend | Attended |
| **Current Directors** | | | | | | | | | | | | |
| Tom Pockett[1,4] | 14 | 14 | 3 | 9 | 1 | 5 | 2 | 8 | 7 | 7 | 2 | 2 |
| Nick Hawkins[1,5] | 14 | 14 | - | 9 | - | 5 | - | 8 | 12 | 13 | - | - |
| Simon Allen[1,5] | 14 | 14 | 9 | 8 | - | 4 | 8 | 8 | 10 | 10 | - | - |
| David Armstrong[1,2,4] | 11 | 11 | - | 1 | 4 | 4 | 6 | 6 | 3 | 3 | - | - |
| Sheila McGregor[1,5] | 14 | 14 | - | 3 | 5 | 5 | - | 1 | 8 | 8 | - | - |
| Jon Nicholson[1] | 14 | 14 | 9 | 9 | - | 3 | 8 | 8 | 1 | 1 | 2 | 2 |
| Helen Nugent[1] | 14 | 14 | - | 2 | 5 | 5 | - | 1 | 1 | 1 | 2 | 2 |
| Scott Pickering[1,2] | 9 | 9 | - | 3 | 4 | 4 | - | 4 | - | - | - | - |
| George Sartorel[1,2] | 11 | 11 | 6 | 6 | - | 2 | 6 | 5 | - | - | - | - |
| George Savvides[1] | 14 | 14 | 9 | 9 | - | 4 | 8 | 8 | - | - | 2 | 2 |
| Michelle Tredenick[1] | 14 | 14 | 9 | 9 | - | 2 | 8 | 8 | - | - | - | - |
| **Former Directors** | | | | | | | | | | | | |
| Elizabeth Bryan[1,3] | 5 | 5 | - | 3 | - | 1 | - | 2 | 1 | 1 | 1 | 1 |
| Duncan Boyle[1,3] | 5 | 5 | - | 2 | 1 | 1 | 2 | 2 | - | - | - | - |

(1) Where not appointed as a Committee member, the Director had attended the meeting/s in an ex-officio capacity; The Board Chairman attends all Standing Board Committee meetings in an ex-officio capacity, except for the Nomination Committee of which the Board Chairman is also the Committee Chairman.

(2) David Armstrong and George Sartorel were appointed to the Board effective 1 September 2021, and Scott Pickering was appointed to the Board effective 1 November 2021.

(3) Elizabeth Bryan and Duncan Boyle retired effective 22 October 2021.

(4) Tom Pockett was appointed as Board Chairman and David Armstrong was appointed as Audit Committee Chairman effective 22 October 2021.

(5) This includes a Due Diligence Committee established by the IAG Board on 23 September 2021 which oversaw the issue of the NZ$400 million Tier 2 subordinated term notes. The Due Diligence Committee comprised of Directors and members of Management. Director members of the Due Diligence Committee were Simon Allen, Sheila McGregor and Nick Hawkins.

## PRINCIPAL ACTIVITY

The principal continuing activity of IAG is the underwriting of general insurance risks and investment management.

IAG is the largest general insurance company in Australia and New Zealand, selling insurance through a suite of brands. In Australia, IAG is a leading personal lines insurer, offering short-tail products across the country, as well as long-tail offerings. IAG also sells a range of commercial insurance products across Australia, with an emphasis on small-to-medium sized enterprises and a leading market share in rural areas. In Australia, the operations are separated into two distinct divisions, being Direct Insurance Australia (DIA) and Intermediated Insurance Australia (IIA). In New Zealand, IAG is the leading general insurance provider across both the direct and intermediated channels. All of these divisions benefit from access to a variety of distribution channels and an array of leading and well-established brands.

The Group reports its financial information under the following business division headings:

| DIVISION | OVERVIEW | PRODUCTS |
|---|---|---|
| Direct Insurance Australia<br><br>46% of Group gross written premium (GWP) | Personal lines general insurance products, and some commercial lines, are sold directly to customers through a range of distribution channels, including branches, call centres and online, under the following brands:<br>■ NRMA Insurance, Australia wide (excluding Victoria);<br>■ RACV in Victoria, via a distribution agreement with RACV;<br>■ SGIO in Western Australia;<br>■ SGIC in South Australia;<br>■ CGU Insurance (in NSW, ACT, VIC & QLD); and<br>■ ROLLiN' Insurance.<br><br>The division also includes travel insurance and income protection products which are underwritten by third parties. | Short-tail insurance<br>■ Motor vehicle<br>■ Home and contents<br>■ Lifestyle and leisure, such as boat, veteran and classic car and caravan<br>■ Business packages<br>■ Farm and crop<br>■ Commercial motor and fleet motor<br><br>Long-tail insurance<br>■ Professional indemnity<br>■ Compulsory Third Party (motor injury liability) |
| Intermediated Insurance Australia<br><br>32% of Group GWP | Commercial lines general insurance products, and some personal lines, are provided through a network of intermediaries, such as brokers, agents, authorised representatives and financial institutions, under the following brands:<br>■ CGU Insurance;<br>■ WFI; and<br>■ Coles Insurance, via a distribution agreement with Coles. | Short-tail insurance<br>■ Motor vehicle<br>■ Home and contents<br>■ Lifestyle and leisure, such as boat, veteran and classic car and caravan<br>■ Travel<br>■ Business packages<br>■ Farm and crop<br>■ Commercial property<br>■ Construction and engineering<br>■ Commercial motor and fleet motor<br><br>Long-tail insurance<br>■ Workers' compensation<br>■ Professional indemnity<br>■ Directors' and officers'<br>■ Public and products liability |

| DIVISION | OVERVIEW | PRODUCTS |
|---|---|---|
| New Zealand<br><br>22% of Group GWP | Personal lines and commercial lines general 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 under third party brands by IAG's corporate partners, including large financial institutions. | Short-tail insurance<br>■ Motor vehicle<br>■ Home and contents<br>■ Commercial property, motor and fleet motor<br>■ Construction and engineering<br>■ Niche insurance, such as pleasure craft, boat and caravan<br>■ Rural<br>■ Marine<br><br>Long-tail insurance<br>■ Professional indemnity<br>■ Commercial liability |
| Corporate and other | 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. | |

## 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.

IAG's results for the current period contain:

- the impact from a release in the provision for business interruption related claims related to the COVID-19 pandemic. Following the appeal judgment in the second business interruption test case handed down on 21 February 2022, which is currently subject to applications for special leave to appeal to the High Court of Australia, the following factors have been considered in determining the appropriate level of release from the business interruption provision at 30 June 2022:
  - the number and nature of the claims received since the second test case;
  - analysis of the scope of the judgment and its application; and
- the impact from an increase in the provisions for annual leave and long service leave. As part of the retrospective compliance review across a number of IAG's payroll related procedures, during the current financial year, it has been identified that the provisions recognised for annual leave and long service leave for some employees was not capturing the full extent of entitlements.

These provisions are 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, these items have been shown in the 'Net corporate expense' line in the management reported view of the current period'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) $m | BUSINESS INTERRUPTION CLAIM PROVISION $m | CUSTOMER REFUNDS PROVISION $m | PAYROLL COMPLIANCE REVIEW $m | MANAGEMENT RESULTS (NON-IFRS PER INVESTOR REPORT) $m |
|---|---|---|---|---|---|
| **2022** | | | | | |
| Gross written premium | 13,317 | - | - | - | 13,317 |
| Movement in unearned premium liability | (345) | - | - | - | (345) |
| Gross earned premium | 12,972 | - | - | - | 12,972 |
| Outwards reinsurance premium expense | (5,063) | - | - | - | (5,063) |
| Net earned premium | 7,909 | - | - | - | 7,909 |
| Net claims expense | (5,015) | (200) | - | - | (5,215) |
| Commission expense | (1,020) | - | - | - | (1,020) |
| Underwriting expense | (2,024) | - | - | 16 | (2,008) |
| Reinsurance commission revenue | 1,162 | - | - | (4) | 1,158 |
| Net underwriting expense | (1,882) | - | - | 12 | (1,870) |
| Underwriting profit/(loss) | 1,012 | (200) | - | 12 | 824 |
| Net investment expense on assets backing insurance liabilities | (238) | - | - | - | (238) |
| Insurance profit/(loss) | 774 | (200) | - | 12 | 586 |
| Net corporate expense[1] | 12 | 200 | - | (12) | 200 |
| Net other operating income/(expenses) | (222) | - | - | - | (222) |
| Profit before income tax from continuing operations | 564 | - | - | - | 564 |
| Income tax expense | (140) | - | - | - | (140) |
| Profit after income tax from continuing operations | 424 | - | - | - | 424 |
| Non-controlling interests | (77) | - | - | - | (77) |
| Profit after income tax and non-controlling interests | 347 | - | - | - | 347 |
| Net profit after tax from discontinued operations | - | - | - | - | - |
| Profit attributable to IAG shareholders | 347 | - | - | - | 347 |
| 2021 | | | | | |
| Gross written premium | 12,545 | - | 57 | - | 12,602 |
| Movement in unearned premium liability | (257) | - | - | - | (257) |
| Gross earned premium | 12,288 | - | 57 | - | 12,345 |
| Outwards reinsurance premium expense | (4,868) | - | (4) | - | (4,872) |
| Net earned premium | 7,420 | - | 53 | - | 7,473 |
| Net claims expense | (5,957) | 1,150 | - | - | (4,807) |
| Commission expense | (1,007) | - | - | - | (1,007) |
| Underwriting expense | (2,152) | - | 188 | 64 | (1,900) |
| Reinsurance commission revenue | 1,125 | - | (3) | (13) | 1,109 |
| Net underwriting expense | (2,034) | - | 185 | 51 | (1,798) |
| Underwriting (loss)/profit | (571) | 1,150 | 238 | 51 | 868 |
| Net investment income on assets backing insurance liabilities | 139 | - | - | - | 139 |
| Insurance (loss)/profit | (432) | 1,150 | 238 | 51 | 1,007 |
| Net corporate expense[1] | (71) | (1,150) | (238) | (51) | (1,510) |
| Net other operating income/(expenses) | 114 | - | - | - | 114 |
| Loss before income tax from continuing operations | (389) | - | - | - | (389) |
| Income tax benefit | 125 | - | - | - | 125 |
| Loss after income tax from continuing operations | (264) | - | - | - | (264) |
| Non-controlling interests | (150) | - | - | - | (150) |
| Loss after income tax and non-controlling interests | (414) | - | - | - | (414) |
| Net loss after tax from discontinued operations | (13) | - | - | - | (13) |
| Loss attributable to IAG shareholders | (427) | - | - | - | (427) |

(1) The $12 million (2021: $71 million expense) was recognised within the 'Fee-based, corporate and other expenses' line in the statement of comprehensive income.

The adjustments summarised above reflect the impact on pre-tax earnings for each respective year. Analysis and commentary on the insurance profit and margin in the operating and financial review section of this report excludes the two reconciling items listed above.

The gross reduction during the current period in the provision for business interruption related claims was $296 million (2021: increase of $1,704 million) and after recognition of a $96 million (2021: increase of $554 million) reduction in recoveries from IAG's whole-of-account quota share arrangements, the full year net pre-tax earnings impact is a gain of $200 million (2021: pre-tax loss $1,150 million). After tax, the net gain of this provision release to IAG is $140 million (2021: net loss of $805 million).

The gross provision recognised in the current financial year resulting from the payroll compliance review was $16 million (2021: $71 million) and after recognition of a $4 million (2021: $15 million) recovery from IAG's whole-of-account quota share arrangements, the full year net pre-tax earnings impact is $12 million (2021: $51 million). After tax, and outside equity interests, the net cost of this provision to IAG is $8 million (2021: $32 million).

## OPERATING AND FINANCIAL REVIEW

### OPERATING RESULT FOR THE FINANCIAL YEAR

| KEY RESULTS | **30 June 2022 $m** | 30 June 2021 $m |
|---|---|---|
| Gross written premium (GWP) | **13,317** | 12,602 |
| Net earned premium (NEP) | **7,909** | 7,473 |
| Insurance profit(1) | **586** | 1,007 |
| Net profit/(loss) after tax(2) | **347** | (427) |
| Cash earnings | **213** | 747 |
| Reported insurance margin(3) | **7.4%** | 13.5% |
| Underlying insurance margin(4) | **14.6%** | 14.7% |
| Diluted earnings per share (cents per share) | **13.33** | (17.82) |
| Cash return on equity (ROE) | **3.4%** | 12.0% |
| Dividend (cents per share) | **11.0** | 20.0 |
| Common Equity Tier 1 Capital (CET 1) multiple | **0.97** | 1.06 |

(1) Reported insurance profit is the insurance profit on a management results basis. Based on the statutory results, the equivalent statutory insurance profit for the current year is $774 million (FY21: $432 million loss).

(2) Net profit/(loss) after tax is the Group's profit/(loss) after tax for the year after adjusting for non-controlling interests.

(3) Reported insurance margin is the insurance profit as a percentage of NEP, both on a management results basis. Based on the statutory results, the equivalent statutory insurance margin for the current year is 9.8% (FY21: negative 5.8%).

(4) IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural perils claims costs less the related allowance, reserve releases or strengthening and credit spread movements.

The Group's profit after tax for the year was $424 million (FY21: loss after tax of $277 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the shareholders of the Company was $347 million (FY21: loss after tax of $427 million). This result included:

- a $421 million decrease in pre-tax insurance profit to $586 million (FY21: pre-tax insurance profit of $1,007 million), driven by a marginally lower underlying margin, higher net natural perils claims costs, a net strengthening of prior year reserves and a negative impact from the increasing credit spreads;
- a $200 million pre-tax release from the provision for business interruption claims associated with COVID-19 in the current year recorded under net corporate expense, compared to a pre-tax net corporate expense of $1,510 million recorded in the prior financial year; and
- a $411 million pre-tax reduction in net investment income on shareholders' funds to a $105 million loss (FY21: pre-tax income of $306 million).

Reported GWP of $13,317 million increased by 5.7% over the prior financial year (FY21: $12,602 million). Growth was predominantly driven by higher premium rates, with around 1% volume growth, across personal short-tail classes in Direct Insurance Australia (DIA), premium rate increases that averaged 9% over the current financial year in Intermediated Insurance Australia (IIA), and by premium rate increases, combined with relatively stable retention and new business levels, in New Zealand.

IAG's FY22 underlying insurance margin of 14.6% (FY21: 14.7%) was impacted by positive benefits from COVID-19 impacts on motor claims frequency, of broadly a similar amount to the prior financial year, and a negative timing impact from increasing risk-free interest rates.

The reported insurance profit of $586 million was lower than the prior financial year (FY21: $1,007 million) and equates to a reported insurance margin of 7.4% (FY21: 13.5%). In addition to the underlying margin influences outlined above, the current year reported insurance profit included an unfavourable net natural perils experience of $354 million, a net strengthening of prior year reserves of $172 million and a negative impact from the increasing credit spreads of $45 million.

### Premiums

Reported FY22 GWP of $13,317 million (FY21: $12,602 million) increased by 5.7% over FY21. This encompassed:

- growth of 4.6% to $6,036 million was achieved in DIA and comprised:
  - increased GWP momentum in 2H22 with growth of 5.8%, building on 3.3% growth in 1H22. Growth was primarily rate driven with approximately 1% volume growth in personal short-tail classes.
- growth of 6.0% to $4,289 million was achieved in IIA and comprised:
  - rate increases across IIA's portfolios averaged 9% during FY22 driven by deliberate portfolio management; and
  - the planned exit of the $140 million IAL personal lines business had a 3.5% impact on GWP growth.
- growth of 7.7% in New Zealand to $2,991 million, up 7.0% in local currency terms:
  - both Business and Direct delivered strong growth, 11% and 4.7% respectively in local currency. This was driven predominantly by premium rate increases with relatively stable retention and new business levels.

### Insurance margin

The underlying insurance margin is the reported insurance margin adjusted for prior year reserve releases or strengthening, natural perils claim costs above or below related allowances and credit spread gains or losses.

| INSURANCE MARGIN IMPACTS | **2022 $m** | 2021 $m |
|---|---|---|
| Underlying insurance profit | **1,157** | 1,095 |
| Reserve releases/(strengthening) | **(172)** | (81) |
| Natural perils | **(1,119)** | (742) |
| Natural peril allowance | **765** | 658 |
| Credit spreads | **(45)** | 77 |
| Reported insurance profit(1) | **586** | 1,007 |
| Underlying insurance margin | **14.6 %** | 14.7 % |
| Reserve releases/(strengthening) | **(2.2)%** | (1.1)% |
| Natural perils | **(14.1)%** | (9.9)% |
| Natural peril allowance | **9.7 %** | 8.8 % |
| Credit spreads | **(0.6)%** | 1.0 % |
| Reported insurance margin(2) | **7.4 %** | 13.5 % |

(1) Reported insurance profit is the insurance profit on a management results basis. Based on the statutory results, the equivalent statutory insurance profit for the current year is $774 million (FY21: $432 million loss).

(2) Reported insurance margin is the insurance profit as a percentage of NEP, both on a management results basis. Based on the statutory results, the equivalent statutory insurance margin for the current year is 9.8% (FY21: negative 5.8%).

IAG's FY22 underlying insurance margin was 14.6%, marginally lower than the 14.7% in FY21 due to a discount rate timing impact. Features of the net movement in FY22 compared to FY21 were:

- a full year net benefit of approximately $60 million from COVID-19 effects experienced in 1H22, compared to $60 million to $70 million in 1H21; and
- the full year impact from higher risk-free discount rates that resulted in investment market losses which was not fully matched as a result of the undiscounted component of liabilities was $42 million.

Excluding the impact of these two items, the FY22 underlying margin was 14.4% (FY21: 13.8%).

IAG's 2H22 underlying insurance margin was 14.1%, lower than 15.1% in 1H22. Key influences on 2H22 compared to 1H22 included:

- COVID-19 provided an approximately $60 million benefit in 1H22 with no impact in 2H22; and
- a discount rate timing impact of $14 million in 1H22 and $28 million in 2H22 which reflects the impact of higher risk-free rates on technical reserve assets which are not matched by discounted liabilities.

Adjusting for these two items, the 2H22 underlying margin of 14.8% exceeds the 1H22 margin of 14.0%, primarily driven by higher underlying investment returns and lower expense ratios.

The reported insurance profit of $586 million in FY22 was lower than the prior financial year (FY21: $1,007 million) and equates to a reported margin of 7.4% (FY21: 13.5%). In addition to the underlying margin influences outlined above, this included:

- unfavourable net natural perils of $354 million in FY22 (FY21: $84 million);
- a $172 million impact from strengthening of prior year reserves (FY21 $81 million); and
- a negative impact from widening of credit spreads of $45 million (FY21: positive $77 million).

### Divisional insurance margins

| DIVISIONAL INSURANCE MARGINS | **2022** | 2021 |
|---|---|---|
| Direct Insurance Australia | | |
| Underlying insurance margin | **20.5 %** | 21.4 % |
| Reported insurance margin | **13.0 %** | 20.7 % |
| Intermediated Insurance Australia | | |
| Underlying insurance margin | **5.0 %** | 3.9 % |
| Reported insurance margin | **(4.0)%** | (0.4)% |
| New Zealand | | |
| Underlying insurance margin | **16.8 %** | 16.4 % |
| Reported insurance margin | **12.8 %** | 19.0 % |

Insurance margin is on a management results basis. Based on the statutory results, the equivalent statutory insurance margin for the current year is 12.5% (2021: 19.1%) for DIA, 4.1% (2021: negative 59.4%) for IIA and 12.8% (2021: 18.9%) for New Zealand.

Detailed commentary on the insurance margin performance is provided in the divisional sections of the Investor Report. A short summary is provided below.

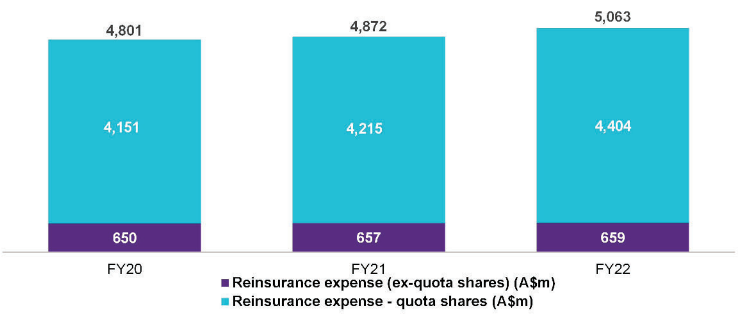
- DIA's underlying margin of 20.5% in FY22 was marginally lower than the prior year (FY21: 21.4%):
  - DIA's reported insurance margin of 13.0% in FY22 was impacted by the significantly higher natural perils and negative investment market impacts.
- IIA reported an insurance loss of $103 million in FY22 (FY21: $10 million loss). The reported insurance margin reduced to negative 4.0% due to:
  - reserve strengthening of $151 million;
  - negative impact of credit spreads of $22 million; and
  - natural perils being $60 million above allowance.
- New Zealand's reported insurance margin of 12.8% in FY22, which was significantly lower than the 19% in FY21 due to:
  - a $79 million increase in natural peril costs; offset by
  - a $34 million reduction in reserve releases.

### Reinsurance expense

The total reinsurance expense includes the cost of all covers purchased, including catastrophe, casualty, facultative and proportional protection.

The FY22 reinsurance expense of $5,063 million compares to $4,872 million in FY21, an increase of approximately 3.9%.

REINSURANCE EXPENSE




Quota share-related reinsurance expense increased 4.5%, slightly lower than the increase in gross earned premium due to the lower growth in CTP. Non-quota share reinsurance expenses were relatively flat (FY22: $659 million, FY21: $657 million).

### Claims

IAG's immunised underlying loss ratio, which reflects trends in underlying or working claims, was 53.3% in FY22 broadly similar to 53.7% in FY21. This ratio excludes all prior year reserve releases or strengthening, natural perils costs and discount rate adjustments.

| IMMUNISED LOSS RATIO | 2022 $m | 2021 $m |
|---|---|---|
| Immunised underlying net claims expense(1) | **4,213** | 4,013 |
| Discount rate adjustment | **(289)** | (29) |
| Reserving and perils effects | **1,291** | 823 |
| Reported net claims expense(2) | **5,215** | 4,807 |
| | | |
| Immunised underlying loss ratio(1) | **53.3 %** | 53.7 % |
| Discount rate adjustment | **(3.7)%** | (0.4)% |
| Reserving and peril effects | **16.3 %** | 11.0 % |
| Reported loss ratio(3) | **65.9 %** | 64.3 % |

(1) Immunised underlying net claims expense and loss ratio adjust the reported equivalent to exclude all prior year reserve releases or strengthening, natural perils costs and discount rate adjustments.

(2) Reported net claims expense is the net claims expense on a management results basis. Based on the statutory results, the equivalent statutory net claims expense for the current year is $5,015 million (2021: $5,957 million).

(3) Reported loss ratio is net claims expense as a percentage of net earned premium. Based on the statutory results, the equivalent statutory loss ratio for the current year is 63.4% (2021: 80.3%).

**Underlying claims trends**

At a Group level, net COVID-19 claims benefits were approximately $80 million in FY22 and $75 million in FY21, driven largely by lower motor claims frequency. Excluding the net COVID-19 impact, the underlying loss ratio fell from 54.7% to 54.3% during FY22. This was a function of offsetting positive and negative factors.

- on the positive side, the ratio benefited from:
  - the earned impact of higher premium rates;
  - lower frequency in home and motor claims;
  - an improvement in IIA claims experience in most portfolios including WFI Rural, professional risk and workers compensation, reflecting continued remediation and active portfolio management.
- these improvements were offset by:
  - a deterioration in commercial liability reflecting elevated average claim size;
  - an increase in motor claims costs of mid-to-high single digits resulting from the inflationary impact of supply chain constraints and increased total losses, partly offset by increased utilisation of IAG's motor repair model;
  - an increase in home claims costs driven by substantial increase in materials and labour costs offset by operational improvements; and
  - an increase in New Zealand commercial property large loss claims.

The increase in the underlying loss ratio from 52.0% in 1H22 to 54.5% in 2H22 is largely due to COVID-19 claims benefits in 1H22.

Reserve releases/strengthening

Prior period reserve strengthening of $172 million occurred in FY22 (FY21: $81 million). This outcome reflected late reported medium to large claims, notably worker injury claims in the 2017 and 2018 accident years and a higher level of claims inflation in the commercial liability portfolio. Around $45 million of the commercial liability $168 million strengthening relates to silicosis exposures. The recent adverse experience from the 2017 and 2018 accident years has been assumed to continue into later accident years.

IAG has taken significant steps to refine its pricing and underwriting decisions to mitigate future impacts for a range of issues including silicosis and worker injury.

Other classes' claims experience has been broadly in line with expectations with modest releases in the second half of FY22.

Natural perils

Net natural perils claim costs in FY22 were $1,119 million, well above the original allowance of $765 million and broadly consistent with the $1.1 billion forecast following the March flooding events. (FY21: $742 million, $84 million above allowance).

| FY22 NATURAL PERILS COSTS BY EVENT | $m |
|---|---|
| NZ Westport flood (July 2021) | 52 |
| NZ Auckland rain and flood (August 2021) | 17 |
| VIC (Mansfield) earthquake (September 2021) | 25 |
| East Coast thunderstorms (September 2021) | 16 |
| Armidale tornado and Western Sydney thunderstorms (October 2021) | 40 |
| QLD/NSW thunderstorms (Coffs Harbour hail) (October 2021) | 101 |
| East Coast thunderstorms (Thirlmere/Coffs Harbour NSW) (October 2021) | 24 |
| Australian thunderstorms (Adelaide hail and VIC severe winds) (October 2021) | 169 |
| East Coast thunderstorms (Sydney northern beaches microburst) (December 2021) | 17 |
| Canberra hailstorm (January 2022) | 18 |
| South East Australia thunderstorms (January 2022) | 32 |
| SA thunderstorms (January 2022) | 15 |
| South East Australia thunderstorms (January 2022) | 31 |
| South East QLD/NSW (NE and Sydney) floods (February 2022) | 73 |
| QLD/NSW thunderstorms (February 2022) | 18 |
| East Coast low (March 2022) | 34 |
| NZ Upper North Island storms (March 2022) | 30 |
| QLD/NSW East Coast low (March 2022) | 20 |
| Other events (<$15 million) | 387 |
| Total | 1,119 |

The 1H22 result included net natural peril costs of $681 million, which was $299 million above allowance reflecting major weather events across Australia and New Zealand. During the second half of the year, further storms and flooding resulted in net natural peril costs of $438 million.

The net cost of the February 2022 Queensland/NSW flooding event ($73 million) and the March 2022 East Coast Low ($34 million) were reduced by the financial protection provided by the Group's main catastrophe and aggregate reinsurance covers.

**Expenses**

Gross operating costs (excluding commissions, pre-quota share) were $2,531 million in FY22, consistent with the Group's target of holding costs at the $2.5 billion level (FY21: $2,503 million).

| GROSS OPERATING COST | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| Gross underwriting expense ex-levies[(1)] | **1,752** | 1,650 |
| Claims handling and fee-based expense | **779** | 853 |
| Total gross operating costs | **2,531** | 2,503 |

(1) The "Expenses" table later in this section illustrates how "Gross underwriting expense ex-levies" reconciles to "Net underwriting expense" on the "Consolidated Statement Of Comprehensive Income" on page 56 of this report.

The 1.1% increase in FY22 was a function of:

- increased technology and system spending across IAG's Enterprise Platform as part of an ongoing investment program to transform IAG's capacity to meet the needs of customers and drive operational excellence. This includes investments in automation and artificial intelligence to unlock efficiencies central to reducing expenses;
- some additional COVID-19 related expenses of approximately $30 million (pre-quota share) largely due to increased annual leave provisions and other costs associated with disruption from lockdowns in 1H22; partly offset by
- a reduction in fee-based expenses due to the cessation of IAG's role as an agent under the Victorian workers' compensation scheme.

| EXPENSES | 2022 $m | 2021 $m |
|---|---|---|
| Gross underwriting expense ex-levies | **1,752** | 1,650 |
| Levies | **256** | 250 |
| Total gross underwriting expenses | **2,008** | 1,900 |
| Gross commission expense | **1,020** | 1,007 |
| Total gross expenses | **3,028** | 2,907 |
| Reinsurance commission revenue | **(1,158)** | (1,109) |
| Total net expenses* | **1,870** | 1,798 |
| *Net underwriting expense* | **1,176** | 1,120 |
| *Net commission expense* | **694** | 678 |
| Total net expenses* | **1,870** | 1,798 |

* Total net expenses are presented on a management results basis. Based on the statutory results, the equivalent statutory total net expense for the current year is $1,882 million (FY21: $2,034 million).

A focus on operational efficiency resulted in the expense ratio falling to 23.7% from 24.1% in FY21. This comprised:

- the administration ratio reducing slightly to 14.9% (FY21: 15.0%); and
- the commission ratio reducing to 8.8% (FY21: 9.1%).

**Net investment income/loss on assets backing insurance liabilities**

Net investment loss on assets backing insurance liabilities (technical reserve assets) for FY22 was $238 million (FY21: income $139 million). This outcome includes:

- a material increase in risk-free rates during FY22. This caused mark-to-market losses of around $331 million on technical reserve assets, with $289 million of this offset by a positive impact on discounted claims liabilities.
- an increase in the underlying yield from the portfolio to 1.8% in FY22 (1H22: 1.1%, 2H22: 2.4%); and
- a negative impact of $45 million from the widening of credit spreads (FY21: positive $77 million).

The portfolio is aligned with the average weighted duration of IAG's claims liability of around two years.

**COVID-19 impacts on FY22 performance**

The predominant impact from the COVID-19 pandemic occurred in 1H22 where it is estimated to have had a modestly negative effect on IAG's GWP and a net positive impact on its insurance profit. No material overall impact was experienced in 2H22. The key impacts included:

- an estimated GWP reduction of $40 million compared to FY21 predominantly from lower new business opportunities in Australian personal lines during the lockdowns in New South Wales and Victoria and reduced travel insurance premiums. Business retention has held at high levels in most core portfolios. COVID-19 had a negligible impact on New Zealand GWP during the year; and
- an estimated net positive impact on the FY22 underlying insurance profit of approximately $60 million post-quota share (FY21: $60 million to $70 million) from lower motor claims frequency offset by some inflation pressures on motor and home claims costs and elevated additional expenses. A net impact of $60 million represents an approximately 0.7% benefit to the insurance margin (FY21: approximately 0.9%). All underwriting profit impacts are expressed on a post-quota share basis.

**Additional matters**

Provision for potential business interruption claims

The total pre-tax provision for net outstanding claims in relation to potential business interruption exposure within IAG's Australian business was $975 million at 30 June 2022 (30 June 2021: $1,236 million). The reduction since 30 June 2021 includes a $200 million pre-tax release in the net corporate expense line in the current financial year and a reduction of $61 million based on yield curve movements included in the claims line (and offset by an equivalent investment income mark-to-market loss).

Extensive scenario testing of the adequacy of the provision has been undertaken during FY22. A substantial part of the provision continues to include a risk margin reflecting the uncertainty of the potential legal outcomes and subsequent claims that may arise.

On 18 November 2020, the Supreme Court of New South Wales Court of Appeal (NSWCA) delivered its judgment on the first business interruption insurance test case, which determined pandemic exclusions that refer to the *Quarantine Act* and subsequent amendments only, rather than the *Biosecurity Act*, are not effective to exclude cover for losses associated with COVID-19. On 25 June 2021, the High Court of Australia (HCA) dismissed the insurers' application for special leave to appeal the decision of the NSWCA.

During the current financial year, a number of developments have emerged. IAG's exposure in respect of policy exclusions which reference the *Quarantine Act* without specific reference to the Biosecurity Act is limited to historical policies only as all new and renewing policies now include the *Biosecurity Act* or a broader exclusion.

Even while the first business interruption insurance test case, noted above, was in progress, preparations were underway for a second business interruption insurance test case. The second business interruption insurance test case was heard by the Federal Court of Australia in September 2021. On 8 October 2021, the Federal Court of Australia delivered its judgment in the second test case and found in favour of insurers on a significant number of policy wording questions and for policyholders on other questions.

In November 2021, the Full Court of the Federal Court of Australia heard appeals in 5 of the 10 cases in the second test case (including the 2 IAG cases) and the Full Court delivered its appeal judgment on 21 February 2022. The judgment was mostly favourable to insurers and upheld many aspects of the Federal Court of Australia's original decision. The judgment did reverse two elements of the judgment in one of the IAG cases relating to the treatment of Jobkeeper payments and the calculation of interest.

Special leave applications have been filed in the HCA in 3 of the 5 test cases that were appealed to the Full Court of the Federal Court of Australia (including the 2 IAG cases). The HCA has now informed the parties that it will conduct an oral hearing to determine the special leave applications in each of these proceedings and that the oral hearing will not be listed before October 2022 (although the precise date is yet to be confirmed).

IAG is defending a representative class action that has been filed in the Federal Court of Australia relating to policyholders with business interruption policies. The representative class action has been adjourned pending conclusion of the test cases.

On 1 August 2022, IAG was notified of a shareholder representative proceeding filed in the Supreme Court of Victoria on behalf of persons who acquired shares in IAG during the period 11 March 2020 and 20 November 2020 (inclusive), in relation to IAG's disclosure of the potential impact of COVID-19 related business interruption claims. IAG intends to defend the proceeding.

BCC Trade Credit and Greensill

As previously advised, IAG maintains that, through the protections it has put in place, it has no net insurance exposure to trade credit policies sold through BCC Trade Credit Pty Ltd (BCC).

The complex issues around trade credit claims continue to be managed and defended by Insurance Australia Limited (IAL), including the litigation arising out of the purported underwriting of Greensill policies by BCC. Claims and litigation by the administrators of Greensill or other claimants seeking confirmation of policy coverage and/or validity of claims was and is anticipated and IAG will defend these litigated claims. During the current financial year, four separate proceedings relating to claims in respect of policies relating to Greensill entities were commenced against IAL in the Federal Court of Australia. The commencement of litigated claims was an expected risk and IAG anticipates that it will take a number of years to bring these matters to resolution.

BCC is an underwriting agency that was authorised to underwrite trade credit insurance on IAG's behalf, in accordance with specific underwriting guidelines, through IAL, one of IAG's two licensed insurance subsidiaries in Australia. Trade credit insurance is designed to protect insured businesses who provide credit terms to their customers. The policies are designed to indemnify for losses arising from a failure to pay genuine debts owed by customers by covering an agreed percentage of defaults on the payment of the business' accounts receivable.

IAL's 50% interest in BCC was sold to Tokio Marine & Nichido Fire Insurance Co. Ltd (Tokio Marine) with effect from 9 April 2019. As part of the transaction arrangements put in place to ensure IAG had no net insurance exposure to trade credit policies, BCC continued to underwrite risks on behalf of IAL to 30 June 2019 with Tokio Marine retaining the ultimate liability for these polices, and earlier written policies, net of reinsurance. In addition to reinsurance in place in respect of these policies, IAG entered into agreements with Tokio Marine for it to hold any remaining exposure to trade credit insurance written by BCC on behalf of IAL before 30 June 2019 and is the licensee responsible for BCC's conduct from 1 July 2019.

IAL ceased underwriting trade credit on 30 June 2019. The IAL trade credit portfolio is in run-off with IAL managing existing and future claims. The existing claims include both claims relating to Greensill entities and claims related to the remainder of the BCC trade credit portfolio. IAG has revised the outstanding claims liability to $477 million at 30 June 2022 (2021: $437 million) mainly due to recognition of claims handling expenses, with the majority relating to expected legal costs associated with claims notified, along with an assessment of existing claims following the receipt of additional claim information and an assessment of a number of new claims lodged during the year relating to the BCC portfolio. This has been determined in accordance with IAG's usual claims reserving practices, which takes into account an assessment of the validity of claims. IAG has also recognised $477 million (2021: $437 million) of related reinsurance recoveries and indemnities in respect of trade credit related claims although a reinsurer may challenge its obligations with respect to any claim exposures.

**Other profit and loss drivers**

Net corporate expense

Net corporate expense in FY22 comprised the pre-tax gain of $200 million, from the release of the Business Interruption provision (FY21: pre-tax loss $1,510 million).

There were a number of other smaller provision movements across previously recognised Asian business sale, payroll compliance and customer refund which netted off to a neutral impact.

### Fee-based business

Fee-based business contributed a loss of $34 million in FY22 (FY21: $29 million loss). This period's result comprised:

- a $3 million profit (FY21: $7 million profit) from IAG's role as agent under the Victorian workers' compensation scheme;
- a loss of approximately $6 million from Motorserve's car servicing activities, which were acquired during FY20 (FY21: $5 million loss); and
- an approximately $31 million loss (FY21: $30 million loss) reflecting investment in new businesses aligned with IAG's strategy and focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives, including:
  - net costs of $12 million from the Ambiata specialist data activation business and the innovation hubs run by Firemark Labs in Singapore;
  - $11 million from the ongoing development of the Carbar digital car-trading platform business;
  - $4 million for the Customer Loyalty Platform, which is leveraging data and analytics to unify brands, products and services, and deliver better customer experiences with rewards for risk mitigating behaviours and loyalty; and
  - $1 million for costs associated with the Safer Journeys crash detection and response service.

### Asian interests

IAG announced on 19 July 2021 that AmGeneral Holdings Berhad, the Malaysian business in which it held a 49% interest, had signed an Implementation Agreement for the proposed sale of its wholly-owned insurance business AmGeneral Insurance Berhad (AmGeneral) to Liberty Insurance Berhad and expected to incur a loss. This investment was classified as 'Held for Sale' and an impairment of approximately $90 million was recognised in FY21.

Regulatory approval was received on 28 June 2022 with final completion following Malaysian High Court approval of the capital reduction and distribution to IAG of its share of the sale proceeds in July 2022.

IAG's remaining Asian investment is a 13.93% interest in Bohai Property Insurance Company Ltd (Bohai) in China, included in the shareholders' funds investments.

The combined contribution from associates was a profit of $17 million (FY21: $35 million), largely derived from AmGeneral.

### Net investment income on shareholders' funds

Net investment income on shareholders' funds was a loss of $105 million (FY21: $306 million gain). This included:

- mark-to-market impacts in fixed interest portfolios from increased rates and credit spreads resulting in a negative return of $68 million;
- a negative return of $23 million from Australian and International equities although IAG outperformed the relevant indexes;
- a small loss of $7 million from the alternative asset classes, primarily from global convertible bonds; and
- an $11 million negative fair value adjustment in the Firemark Ventures portfolio.

At 30 June 2022, the weighting to defensive assets (fixed interest and cash) within shareholders' funds was approximately 68%, compared to approximately 70% at the end of FY21.

### Tax expense

IAG reported tax expense of $140 million in FY22 (FY21: $125 million credit), reflecting an effective tax rate of approximately 25% on pre-tax earnings.
Contributory elements reconciling the FY22 effective tax rate to the Australian corporate rate of 30% were:

- differences in tax rates applicable to IAG's foreign operations, principally in New Zealand and Singapore;
- completion of the sale process of the Malaysian business; and
- franking credits generated from IAG's investment portfolio.

### Non-controlling interests

Profit after tax attributable to non-controlling interests was $77 million (FY21: $150 million).

Non-controlling interests are principally represented by RACV's 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short-tail business lines in NSW, Victoria and the ACT form part of DIA. IMA posted a much lower profit in FY22 owing to the high level of natural peril events in NSW during the year.

### Acquired intangible amortisation and impairment

The current year acquired intangible amortisation and impairment of $7 million (FY21: $111 million), was significantly lower than $111 million in FY21 which included an impairment of $89 million recognition on the sale of AmGeneral and write-down of intangibles associated with IAG's exit from the Victorian Workers Compensation Scheme (approximately $15 million).

### Net profit/(loss) after tax

A net profit after tax and outside equity interests of $347 million (FY21: net loss $427 million) reflected the aforementioned items.

## REVIEW OF FINANCIAL CONDITION

### A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2022 were $34,083 million compared to $33,449 million as at 30 June 2021. Movements within the overall net increase of $634 million include:

- an increase of $614 million in reinsurance and other recoveries on outstanding claims primarily associated with the increase in natural perils claim costs during the financial year, partially offset by the effect of the upward movement in the yield curve, particularly on long-tail reserves;
- an increase of $233 million in deferred insurance expenses associated with the whole-of-account quota share arrangements driven by GWP growth, particularly in the second half of the financial year, and from the 2023 financial year catastrophe reinsurance cover renewals;
- an increase of $226 million in trade and other receivables predominantly relating to increase in premiums receivable reflecting growth in GWP across Australia and New Zealand; and
- an increase of $191 million in goodwill and intangible assets mainly from capitalisation of costs associated with the development and implementation of various systems; partially offset by
- a decrease in investments of $604 million associated with negative returns delivered from the investment portfolio and funds outflow for the payments of the 2021 final dividend, the 2022 interim dividend and the costs associated with the development and implementation of various systems, partially offset by the operating earnings for the year.

The total liabilities of the Group as at 30 June 2022 were $27,583 million compared to $26,893 million as at 30 June 2021. Movements within the overall net increase of $690 million include:

- a $652 million increase in outstanding claims liability primarily representing the combined impact of higher reserves for natural perils events, increased short-tail attritional reserves mainly due to claim experience slowly returning to a pre-pandemic level, strengthening across commercial long-tail reserves, partially offset by the release in business interruption provision and reduction in reserves associated with yield curve impacts; and
- a $304 million increase in unearned premium liabilities, reflecting the GWP growth, particularly in the latter half of the financial year; partially offset by
- a $195 million decrease in provisions mainly due to the continued settlements made associated with customer refunds and payroll compliance matters, and a reduction across other employee benefits provisions; and
- a $111 million decrease in current tax liability mainly attributable to the final tax settlement for Insurance Manufacturers of Australia Pty Limited (a 70% owned subsidiary of the Company) and the Australian consolidated tax group in respect of the 2021 assessment year.

IAG shareholders' equity (excluding non-controlling interests) decreased from $6,246 million as at 30 June 2021 to $6,163 million as at 30 June 2022, reflecting the combined impact of:

- current year net profit attributable to shareholders of $347 million; and
- $468 million payments in respect of the 2021 final dividend and 2022 interim dividend.

### B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the year ended 30 June 2022 were $899 million compared to net cash inflows of $1,610 million for the prior year. The movement is mainly attributable to the net effect of:

- a $407 million increase in claims costs paid largely attributable to the increase in natural peril events compared with the prior year and higher attritional claim payments as claim experience slowly return to a pre-pandemic level;
- a $337 million decrease in reinsurance and other recoveries received primarily due to the significant recoveries that were received in the prior year relating to natural peril events that occurred in the 2020 financial year;
- a $301 million increase in income tax paid predominantly due to the absence of the refund from the ATO in respect of the 2020 assessment year received in the prior year, the franking deficit tax paid by the Australian tax consolidated group in the current year and the higher final income tax paid by Insurance Manufacturers of Australia Pty Limited in the current year in respect of the 2021 assessment year;
- a $267 million increase in other operating payments, driven by the payment of employee short-term incentives in the current year, and settlement of provisions associated with customer refunds and payroll compliance matters; and
- a $214 million increase in outwards reinsurance premium expense paid primarily driven by the increased amount ceded to whole-of-account quota share partners in line with GWP growth, partially offset by
- a $638 million increase in premiums received, largely reflecting the year-on-year premium growth; and
- $146 million increase in other operating receipts mainly attributable to higher reinsurance commission receipts on whole-of-account quota share arrangements.

### C. INVESTMENTS

The Group's investments totalled $11,813 million as at 30 June 2022 compared to $12,417 million at 30 June 2021. The reduction reflecting the combined effect of:

- the increase in discount rates and risk-free rates that reduce both balance sheet asset and liabilities;
- lower equity returns impacting shareholder funds; and
- operational and earnings changes in the period.

IAG's overall investment allocation is defensively positioned, with nearly 90% of total investments in fixed interest and cash as at 30 June 2022. IAG applies distinct investment strategies to its two pools of investment assets:

- technical reserves, which back insurance liabilities, are wholly invested in fixed interest and cash; and
- 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 (equities and alternatives) was around 32% of shareholders' funds at 30 June 2022, approximately 2% higher than the level at 30 June 2021.

### D. INTEREST-BEARING LIABILITIES
IAG's interest bearing liabilities stood at $2,055 million at 30 June 2022, compared to $1,987 million at 30 June 2021, with the small increase in the year reflecting the issue of NZ$400 million of subordinated debt and the redemption of NZ$350 million of subordinated debt.

### E. CAPITAL MIX
Currently IAG measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles.

IAG's debt to total tangible capitalisation ratio at 30 June 2022 was 39.9% towards the top of the previous 30-40% range. Going forward, IAG will no longer target a specific debt to total tangible capital ratio. As IAG's borrowings are substantially in the form of Additional Tier 1 and Tier 2 regulatory capital securities, IAG's capital mix is defined by regulatory capital targets which will remain the focus. Subject to market conditions, during FY23 IAG may consider a new issue of Capital Notes intended to qualify as Additional Tier 1 regulatory capital. IAG's intent remains to manage regulatory capital to its 1.6 to 1.8 times PCA benchmark over the longer term.

### F. CAPITAL POSITION
Under the Australian Prudential Regulatory Authority's (APRA) Prudential Standards, IAG's Common Equity Tier 1 (CET1) capital was $2,364 million (2021: $2,635 million) and regulatory capital of $4,380 million (2021: $4,615 million) at 30 June 2022. 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 2022, IAG had a CET1 multiple of 0.97 (2021: 1.06) and a PCA multiple of 1.80 (2021: 1.86).

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

## STRATEGY AND RISK MANAGEMENT
### A. STRATEGY
Helping customers manage risk has been IAG's business for over 160 years, forming the heart of IAG's purpose, *to make your world a safer place*.

During FY22, IAG's purpose has never been more relevant. IAG has managed through the COVID-19 disruption to local markets and global supply chains and responded to almost 150,000 natural peril claims as our customers have been impacted by multiple weather events across Australia and New Zealand. In responding to these challenges, IAG has remained purpose-led, customer focused and commercially disciplined.

IAG's trusted brands, established supply chain, deep data assets and financial strength are key attributes, providing competitive advantage.

IAG's long-term objective remains: the delivery of top quartile Total Shareholder Return, with a sustainable growth profile. To realise this, IAG has reset its strategy to *'create a stronger, more resilient IAG'*. IAG is driving focus, adapting its business model and playing to its strengths to capitalise on trends shaping the operating environment.

Four strategic pillars provide focus, inform IAG's operating model and underpin IAG's three to five year strategy:

**Grow with our customers**
- IAG will grow as Australians and New Zealanders grow by delivering outstanding personalised service when customers need it most;
- IAG will focus the strength of its brands to meet the evolving needs of consumers and enable the next wave of growth in small businesses across Australia and New Zealand; and
- IAG will increase its customer reach to make the world safer for more Australians and New Zealanders.

**Build better businesses**
- IAG will help Australian and New Zealand businesses by continuing to focus on underwriting expertise, active portfolio management and pricing excellence; and
- IAG will evolve by investing in its core competencies, delivering consistent high-quality returns to shareholders and enhancing its competitive advantage.

**Create value through digital**
- IAG will be digital to the core by creating connected customer experiences that seamlessly assist and reward customers as they unlock the value of IAG's network; and
- IAG will transform customer experience while modernising core platforms and using intelligent automation to capture value.

**Manage our risks**

- IAG will manage the risks in its own business so that it can continue to manage the risks in its customers' lives, by building a strong, active risk culture and meeting its obligations to the communities it serves;
- IAG will invest in process, capability, infrastructure and operational excellence to create a stable, scalable and efficient business; and
- IAG will continue to have a strong capital platform, ensuring its customers are appropriately supported by its financial strength.

IAG's strategy balances strengthening the fundamentals of insurance while evolving to be a digital leader. It will ensure IAG is a stronger, more resilient organisation with increased customer reach.

## 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 expectations of its stakeholders, including customers, industry and regulators. IAG clearly 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 RMF, the status of material risks, the control environment, risk and compliance events and issues, 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 Risk Committee, the Audit 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 – risk that internal or external factors disrupt the assumptions underpinning IAG's strategy or compromise its ability to set and execute an appropriate strategy. This includes environment and social governance risk which encompasses climate risk considerations;
- organisational conduct and customer risk – risk of behaviour or action taken by entities and employees associated with IAG that may have negative outcomes for IAG's customers, staff, communities, and markets in which IAG operates. It includes the risk that products are designed, priced, distributed and managed in a way that does not meet the reasonable needs and objectives of customers;
- insurance risk – risk of unintended financial loss as a result of:
  - inadequate or inappropriate underwriting;
  - inadequate or inappropriate product design and 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 – risk of financial loss as a result 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 risk;
- market risk – risk of adverse movements in market prices (equities, derivatives, interest rates, foreign exchange, etc) or inappropriate concentration within the investment funds;
- credit risk – 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 – risk of inadequate funds and/or illiquid asset portfolios to meet liabilities as they fall due;
- capital risk – risk that capital is:
  - insufficient or excessive given the nature, strategies and objectives of the Group; or
  - comprised of a mix of equity, debt, reinsurance, including IAG's 32.5% whole-of-account quota share arrangements, or other expiring sources of capital that is unsuitable or unsustainable due to its cost, structure, flexibility, or IAG's ability to renew or replace on acceptable terms;
- operational risk – the failure to achieve objectives due to inadequate or failed internal processes, people and systems or from external events; and
- regulatory and compliance risk – risk of legal or regulatory impacts or reputational loss arising from failure to manage compliance obligations or failure to anticipate and prepare for changes in the regulatory environment.

In addition to the above risks, as the global economy recovers from the effects of the COVID-19 pandemic, IAG is experiencing the effects of increasing interest rates and the emergence of higher inflation. This is expected to impact claims and operating costs, investment returns and premiums charged to customers, and is being monitored closely.

IAG aims to have a disciplined approach to 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 RMF, 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. CLIMATE CHANGE AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK

As Australia and New Zealand's largest general insurer, IAG's core business and value chain are exposed to a broad range of interconnected environmental, social, and governance (ESG) risks. IAG insures individuals, households, and businesses against the impacts that climate-related hazards can have on their assets, playing a critical role in the economy to help build stronger, more resilient communities. To ensure IAG can continue to act in this role and deliver for its customers, climate change and ESG risk management are deeply embedded in IAG's strategy.

The structure and content of the following summary disclosure (under the subheadings of Governance, Strategy, Risk management, Metrics and targets) is aligned to the guidance of Task Force on Climate-related Financial Disclosures (TCFD) and considers the International Sustainability Standards Board (ISSB) exposure drafts for General Sustainability and Climate.

A detailed review of IAG's progress in managing climate-related risks and opportunities can be found in the Climate-related disclosure. Further details on IAG's broader Sustainability initiatives can be found in the FY22 Annual Review and Sustainability Report. Both reports are available at www.iag.com.au/safer-communities.

### Governance

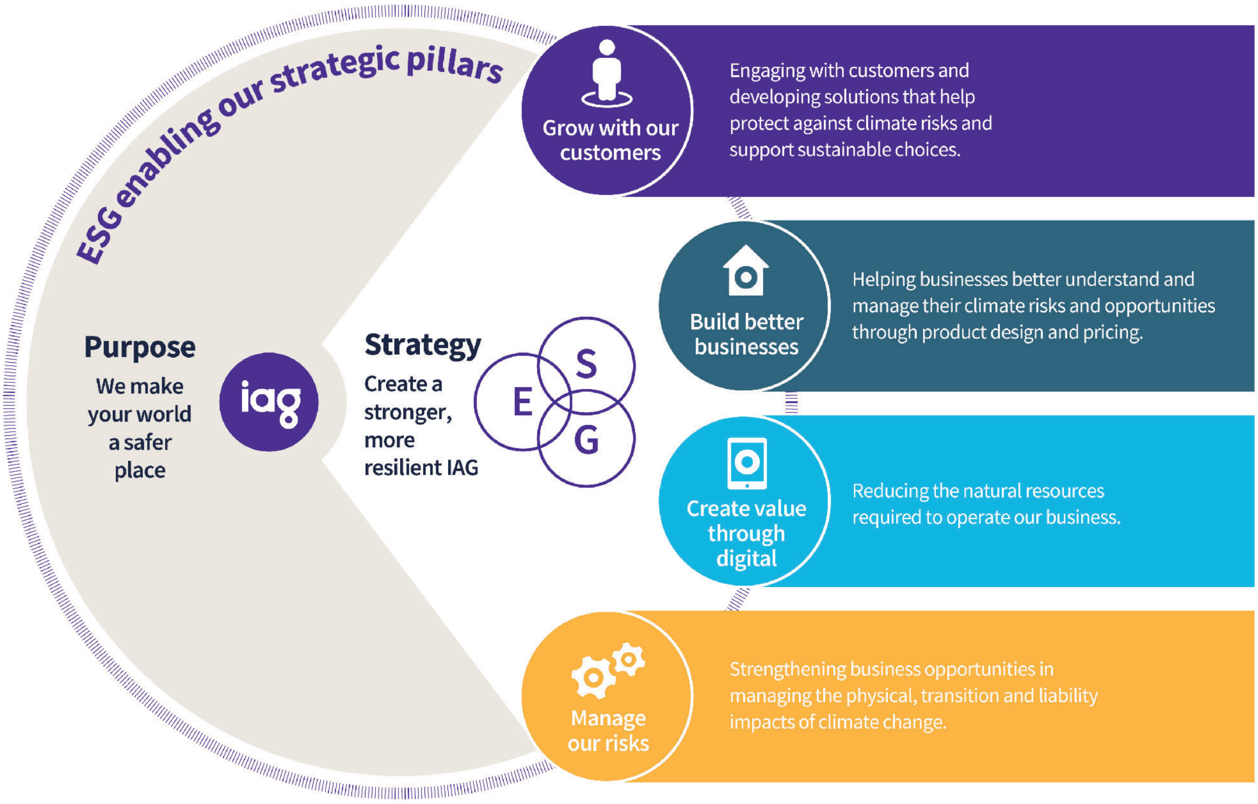
IAG has a clear governance structure across its Board and Group Leadership Team to support identification, understanding and management of climate change and ESG risks and opportunities. See table below for accountabilities and roles:

| SUSTAINABILITY, CLIMATE CHANGE AND ESG GOVERNANCE | |
|---|---|
| IAG Board | ▪ approve relevant policies and frameworks including the IAG Social and Environmental Framework;<br>▪ receive six monthly reporting on Sustainability Strategy and initiatives;<br>▪ consideration of external climate change and ESG reporting;<br>▪ approval of the Annual Report and Annual Review and Sustainability Report; and<br>▪ attend dedicated climate education sessions. |
| Managing Director and Group Chief Executive Officer | ▪ management accountability for Sustainability and climate strategy, implementation, and performance. |
| IAG Group Leadership Team (GLT) | ▪ approve the Sustainability Strategy and Climate & Disaster Resilience Action Plan. Relevant IAG Group Leadership Team members have accountability for Sustainability and climate commitments; and<br>▪ monitor climate risk management through the GLT Group Risk Committee. |
| Group Executive People, Performance and Reputation | ▪ accountability for coordination of IAG's enterprise-wide Sustainability Strategy and initiatives, Climate & Disaster Resilience Action Plan and Reconciliation Action Plan; and<br>▪ accountability for approving IAG's Climate-related disclosure. |
| Safer Communities, ESG and Climate Steering Committee | ▪ quarterly forum that shapes, guides, and monitors IAG's enterprise-wide approach to Sustainability; and<br>▪ chaired by the Group Executive People, Performance and Reputation and comprises senior leaders from across the Group, including the Chief Insurance and Strategy Officer. |

### Strategy

IAG's purpose and corporate strategy guides decision-making and aims to ensure value is being created for both the community and IAG. Climate and disaster resilience is where IAG dedicates the most focus, including partnering with governments and partners like the State Emergency Services in New South Wales and South Australia to improve community preparedness for floods, storms, and other climate-related hazards. IAG also prioritises broader ESG considerations impacting our business, including a focus on diversity, inclusion and belonging through activities targeted at increasing women in senior leadership and increasing Aboriginal and Torres Strait employment, as well as protecting the safety and wellbeing of employees by reducing lost-time injury frequency rates.

Integrating climate change and ESG into IAG's strategy




## Climate impacts for IAG

IAG understands that physical impacts in Australia present the most material short, medium, and long-term climate risk to IAG's business. Under future climate scenarios, the increasing severity and frequency of natural perils could lead to higher pricing and insurance premiums for property assets, which may drive increased affordability issues. There is potential for material financial impact from climate change in the long-term without further action by governments, businesses, and communities. While IAG acknowledges climate and financial risk modelling is inherently uncertain, the assessments across various climate scenarios can help inform where disaster risk reduction and resilience should be prioritised to ensure the safety of communities and ongoing viability of insurance in high-risk areas.

IAG continues to evolve its work to develop deeper analysis of physical and transition impacts for both Australia and New Zealand. Further details of IAG's scenario modelling are included in the Climate-related disclosure.

## Climate & Disaster Resilience Action Plan

IAG's Climate & Disaster Resilience Action Plan (Action Plan) sets out the framework, commitments, and activity for IAG to mitigate and adapt to the impacts of climate change and deliver on its strategy. This Action Plan responds to material short, medium, and long-term risks and opportunities across three focus areas:

- keeping people insured by enabling customers and IAG to manage risks and opportunities more effectively in a changing climate;
- building community climate and disaster resilience by delivering and collaborating on preparedness initiatives, research, adaptation, and policy; and
- reducing IAG's emissions footprint and achieving net zero by 2050 to limit climate change.

The Action Plan has two high-level targets that contribute to IAG's broader strategic priorities:

- net zero emissions by 2050, with a 50% emissions reduction by 2030. We continue to make progress against our scope 1 and 2 target and are currently ahead of our 2025 target. We are committed to the ambition of net zero but acknowledge that there is additional work to do to set the plan to achieve this; and
- one million Australians and New Zealanders have taken action to reduce their risk from natural hazards by 2025.

Collaboration

IAG is a signatory to several voluntary principles-based frameworks which guide the integration of ESG considerations into its business practices. These include the United Nations Environment Programme Finance Initiative's Principles for Sustainable Insurance (PSI) and the Principles for Responsible Investment (PRI). In July 2022, IAG became a member of the Net-Zero Insurance Alliance (NZIA). As an NZIA member, IAG is working with other insurers to develop the methodologies to assess emissions in its underwriting portfolio and work towards a net zero future. Further details can be found in the 'Our initiatives and community partners' section of the IAG website at www.iag.com.au.

**Risk management**

IAG's exposure to climate change and ESG risks is identified and assessed as part of its enterprise-wide risk management framework. Through risk profiling, ongoing trend analysis, and an annual materiality process, information on these risks is collected and reported to the Group Leadership Team and Board and used to update IAG's strategy at appropriate intervals.

The Enterprise Risk Profile (ERP) guides divisional implementation of IAG's strategy and decision making, consistent with IAG's Risk Management Strategy and Risk Appetite Statement. The 2022 financial year ERP process revalidated an 'Inadequate Climate Change Response' as a critical enterprise risk. This is consistent with previous years and the findings from IAG's materiality process, reflecting the systemic impact climate change has on IAG. This year 'Affordability and Availability' was also recognised as a standalone enterprise risk. This will help to embed a shared understanding and agreement on the challenges presented by these interconnected risks.

IAG's response to climate change risks and opportunities is managed through the Climate & Disaster Resilience Action Plan.

Risk management activities

An outline of key climate and ESG activities is provided below. More detail can be found at www.iag.com.au, including the 2022 Annual Review and Sustainability report, and the Climate-related disclosure.

| KEY ACTIVITIES - CLIMATE AND DISASTER RESILIENCE |
| --- |
| Rethinking risk<br>**Embedding climate change into insurance pricing**: IAG is integrating climate risk management into its portfolio choices, underwriting, product, and pricing approach. Signalling climate risk exposure supports decision-making in high-risk peril areas where insurance affordability and availability are exacerbated.<br><br>**Managing Capital**: Using in-house understanding of natural perils, IAG pursues a comprehensive and diverse range of reinsurance protection. IAG is also aligning its investment approach to support its capital position and resilience to climate risks. |
| Supporting customers and communities<br>**Customer Carbon Offset Program**: IAG launched the NRMA Insurance Carbon Offset Program in May 2022 to enable motor customers to offset their yearly driving emissions, while contributing to NRMA insurance customer growth targets and IAG's net zero target.<br><br>**Rebuilding resilience**: Household resilient design projects are informing opportunities to scale solutions to help customers adapt to climate change including partnering with the Bushfire Building Council of Australia on the FORTIS House project to help build sustainable houses resilient to natural perils.<br><br>**Community and customer preparedness**: IAG's disaster resilience programs and partnerships, including the Wild Weather Trackers in Australia and New Zealand, help customers and communities become better prepared and more resilient to climate-related perils. This reduces the social and financial costs of disaster response and recovery to the community and business. |
| Influencing policy, standards, and codes<br>**Leading by example**: IAG shares its climate and disaster insights and reduces its own emissions to influence broader climate action across systems. This includes publishing scientific natural perils research to drive behavioural change across the insurance industry and its value chain. In New Zealand, the IAG Climate Change Survey is entering its fifth year, with results shared with the broader business community to upskill on climate change adaptation.<br><br>**Advocating for improved land planning, building codes and construction**: IAG's experience assessing risk and responding to claims provides valuable information and resources to influence policy changes for land planning and the built environment. This includes working with various levels of government and standards and code setting bodies to improve standards for new builds, and to improve risk reduction options for legacy building stock. |

Reducing our emissions

**Net zero target**: IAG is committed to net zero emissions by 2050, with 50% emissions reduction by 2030. IAG is updating its Net Zero Roadmap to detail the activities needed to achieve scope 1 and 2 science-based emissions reduction targets as well as activities to identify, manage, and reduce the most material scope 3 emissions across IAG’s value chain.

**Scope 1 and 2 emissions**: IAG is focused on introducing more renewable energy into its Australian energy mix over the next three years and transitioning its New Zealand fleet to electric and hybrid vehicles.

**Scope 3 emissions**: IAG is committed to achieving its existing underwriting target and continues to make progress with exposure to fossil fuels currently <0.01% of GWP.

IAG has also reduced the normalised carbon footprint and carbon intensity of its equity portfolios, exceeding its reduction targets set until 2025. Refer to the Metrics and targets section for further detail.

There is more work needed to improve understanding of IAG's emissions footprint across its supply chain and underwriting portfolios to support further emissions reduction activities. IAG is committed to developing a plan to achieve this goal. A key focus is participating in Net-Zero Insurance Alliance activities to develop an industry-appropriate methodology to assess and manage insured emissions.

KEY ACTIVITIES - ESG

**Customer Equity Program** – minimising obstacles for people to access our services and enabling improved customer experiences: IAG continues to execute its Group Customer Equity Framework, incorporating the key initiatives of the newly developed Customer Equity Principles and Maturity Model. This includes delivering web-based vulnerability training for front line staff and upskilling select employees to perform the role of Customer Equity Champion within their business unit. We are also uplifting how we measure and report progress against our customer equity initiatives.

IAG is also on track to implement the initiatives of its public Financial Inclusion Action Plan, responding to customer needs and supporting social inclusion, with vulnerability training now embedded into IAG’s onboarding program.

**Aboriginal and Torres Strait Islander communities and Māori** – creating opportunity in Australia and New Zealand:
IAG launched its fourth Reconciliation Action Plan in June 2022, with a focus on supporting climate and disaster resilience risk reduction and reducing incarceration and reoffending rates. This includes working with disaster resilience partners, enabling economic opportunity through climate change mitigation initiatives, and working with Just Reinvest NSW to address incarceration.

In New Zealand, the He Rautaki Māori (Māori Engagement Strategy) continues to target four outcomes to help lift Māori prosperity and wellbeing: embracing Te Ao Māori, fostering Māori leadership; supporting Māori business, and becoming a leading supplier to Māori.

**Human Rights and Modern Slavery** – managing risk across IAG’s value chain:
Respect for human rights underpins IAG’s purpose and conduct. IAG's approach is informed by standards, including the United Nations Guiding Principles on Business and Human Rights, the International Bill of Human Rights, and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work.

In December 2021, IAG published its second Modern Slavery Statement, which detailed the actions IAG has undertaken to identify, assess and remediate Modern Slavery risks in its operations, supply chains and investments. Activity over the past two years has been focused on getting the foundations right, including rolling out IAG’s Supplier Code of Conduct. IAG is now shifting attention to practical implementation and collaboration, aiming to continually improve and refine its approach.

**Responsible Investment** – managing risks in our capital allocations:
IAG held $217 million in green bonds financing energy efficiency, clean energy, adaptation to climate change and climate resilient infrastructure as at 30 June 2022.

**Responsible Underwriting** – reducing ESG exposures and finding new underwriting opportunities:
IAG is progressing work to incorporate ESG in underwriting by developing a responsible underwriting approach, including a focus on reducing insured emissions.

**Sustainable Procurement** – managing supply chain risks:
100% of managed suppliers have received IAG's Supplier Code of Conduct and >50% of high/material risk suppliers have completed supplier risk assessment questionnaires.

### Metrics and targets

Details of IAG’s Sustainability performance, and progress against its ESG commitments, can be found in the 2022 Annual Review and Sustainability Report. A full overview of IAG’s reported climate-related metrics can be found in the Climate-related disclosure, and all reported ESG metrics are included in the FY22 ESG Data Summary. These disclosures are available at www.iag.com.au.

IAG is committed to developing a plan to meet its net zero ambitions. Reducing emissions to reach net zero is complex. Good progress is being made, but there will be yearly fluctuations as methodologies for capturing and measuring emissions evolve. IAG will respond and adapt to these developments accordingly.

The following table provides a summary of performance against the key targets that help IAG address and monitor climate change and ESG risks:

| METRIC | TARGET | PROGRESS[1] |
|---|---|---|
| Reducing IAG's Scope 1 and 2 GHG emissions with science-based targets | Science-based absolute emission reduction targets in line with Paris Agreement commitment to keep climate change below 2°C:<br>▪ 20% reduction by 2020 (27,441 tonnes $CO_2e$)<br>▪ 43% reduction by 2025 (19,360 tonnes $CO_2e$)<br>▪ 71% reduction by 2030 (9,993 tonnes $CO_2e$)<br>▪ 95% reduction by 2050 (1,972 tonnes $CO_2e$) | IAG reduced scope 1 and 2 greenhouse gas emissions to 15,771 tonnes $CO_2$ equivalent as at FY22. |
| Reducing underwriting portfolio exposure to fossil fuel risks | Cease underwriting entities predominantly in the business of extracting fossil fuels and power generation from fossil fuels by the end of FY23. IAG's key parameters for defining business underwriting exposure to fossil fuels are:<br>▪ fossil fuel extraction, including the mining of any hydrocarbon fuels, where extraction makes up over 30% of all the entity's activities by operational revenue; and<br>▪ power generation using fossil fuels, where thermal coal makes up over 30% of the electricity generated.<br><br>Application of these parameters does not include:<br>▪ legacy portfolios in runoff for businesses that IAG has divested where the liability for future claims against some of the policies will exist until expiry of the policy;<br>▪ workers compensation, irrespective of the climate intensity/fossil fuel exposure of the industry they work in, as everyone needs to be protected at work; and<br>▪ supporting businesses that provide, supply, transport or provide distribution services to these entities. | The GWP relating to fossil fuel extraction and power generation using fossil fuel is less than $1 million, or <0.01% of the total GWP written by the Group at 30 June 2022. |
| Reducing investment portfolio emissions[2] | IAG has established intermediate targets to reduce the normalised carbon footprint and carbon intensity for its Australian and Global listed equity mandates. This includes a:<br>▪ target minimum reduction of 25% versus 2020 relevant index level baselines until 2025; and<br>▪ target minimum reduction of 50% versus 2020 relevant index level baselines by 2030.<br><br>The relevant baselines refer to the ASX200, excluding IAG, for Australian equities, and the MSCI World for Global Listed equities as at June 2020. | Reduced the normalised carbon footprint of its Australian equity portfolio by 63% versus 2020 baseline, to 69 $tCO_2$ per million USD invested as at 30 June 2022.<br><br>Reduced the normalised carbon footprint of its Global equity portfolio by 48% versus the 2020 baseline, to 57 $tCO_2$ per million USD invested. |
| Increasing indigenous employment | Increase indigenous employment to 3% of Australian employees by the end of 2023. | Indigenous employment at 1.3% as at 30 June 2022. |
| Increasing Women in Senior Leadership | Increase Women in Senior Leadership to 50% by FY23. | 44% of women in senior leadership roles as at 30 June 2022. |
| Manage the safety and wellbeing of IAG people | Reduce Lost-time injury frequency rate (LTIFR) to 1.47 in Australia and 0.85 in New Zealand for FY22. | LTIFR 0.96 in Australia and 0.17 in New Zealand as at 30 June 2022. |

(1) Progress against targets is included in the limited assurance scope as part of the non-financial assurance of IAG's 2022 Annual Review and Sustainability Report. The independent assurance report is available at www.iag.com.au.

(2) 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.

## 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.

For the financial year ended 30 June 2022, IAG complied with the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (4th edition). Details of this compliance are set out in IAG's 2022 Corporate Governance Statement and in the Appendix 4G. This Corporate Governance Statement is current as at 12 August 2022 and has been approved by the Board.

IAG's 2022 Corporate Governance Statement is available at www.iag.com.au/about-us/corporate-governance.

## FY23 GUIDANCE AND OUTLOOK

IAG's confidence in its strong underlying business is reflected in upgraded guidance for FY23 which includes:

- GWP of 'mid-to-high single digit' growth. This will be primarily rate driven to cover claims inflation, higher reinsurance costs and an increased natural peril allowance. Modest volume growth and an increase in customer numbers are expected.
- reported insurance margin guidance of 14% to 16% which assumes:
  - continued momentum in the underlying performance of IAG's businesses, supported by increased investment yields;
  - an increase in the natural peril allowance to $909 million, an increase of $144 million or nearly approximately 19% on the FY22 allowance;
  - no material prior period reserve releases or strengthening; and
  - no material movement in macro-economic conditions including foreign exchange rates or investment markets.

This guidance aligns to IAG's aspirational goals to achieve a 15% to 17% insurance margin and a reported ROE of 12% to 13% over the medium term. These goals are based on delivery of IAG's ambitions of:

- an increase in the customer base of 1 million to 9.5 million by FY26;
- an IIA insurance profit of at least $250 million by FY24;
- $400 million in value from DIA claims and supply chain cost reductions on a run-rate basis from FY26;
- greater than 80% of customer interactions across digital channels; and
- further simplification and efficiencies to maintain the Group's cost base at $2.5 billion.

These goals are subject to assumptions and dependencies, including that there are no material adverse developments in macro-economic conditions and disruptions or events beyond IAG's control (for example, natural perils events in excess of IAG's allowances).

## DIVIDENDS

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

| CASH EARNINGS | **2022** **$m** | 2021 $m |
|---|---|---|
| Net profit/(loss) after tax | **347** | (427) |
| Acquired intangible amortisation and impairment (post-tax) | **7** | 111 |
| | **354** | (316) |
| **Non-cash earnings items:** | | |
| Corporate expenses | | |
| – Business interruption (release)/provision | **(200)** | 1,150 |
| – Customer refunds provision | **-** | 238 |
| – Payroll compliance provision | **-** | 51 |
| – Swann class action | **-** | 40 |
| – Other | **-** | 31 |
| Tax effect on corporate expenses | **60** | (450) |
| Non-controlling interest in corporate expenses | **-** | (5) |
| Vietnam gain on sale | **(1)** | - |
| Vietnam impairment (discontinued operations) | **-** | 8 |
| Cash earnings(1) | **213** | 747 |

(1) Cash earnings used for targeted ROE and dividend payout policy purposes are defined as net profit/(loss) attributable to IAG shareholders plus amortisation and impairment of acquired identifiable intangibles, excluding any non-cash earnings items. Cash earnings will not be used for FY22 dividend payout purposes. Cash earnings represent non-IFRS financial information.

The Board has determined to pay a final dividend of 5.0 cents per share, franked to 70% (2021 final dividend: 13.0 cents per share, unfranked). The final dividend is payable on 22 September 2022 to shareholders registered as at 5pm Australian Eastern Standard Time (AEST) on 19 August 2022.

This brings the full year dividend to 11.0 cents per share, which equates to a payout ratio of approximately 78% of reported net profit after tax (NPAT). IAG's dividend policy in future years will be to distribute 60-80% of NPAT excluding any after-tax earnings impact from any future release from the business interruption provision.

As at 30 June 2022, and prior to allowance for payment of the final dividend, IAG had a $293 million franking balance on a consolidated basis and the holding company had $42 million franking balance.

The dividend reinvestment plan (DRP) will operate for the final dividend for shareholders registered for the DRP as at 5pm AEST on 22 August 2022. The issue price per share will be the Average Market Price as defined in the DRP terms with no discount for participants. Shares allocated under the DRP are likely to be purchased on-market. Information about IAG's DRP is available at http://www.iag.com.au/shareholder centre/dividends/reinvestment.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year, the following changes became effective:

- On 19 July 2021, IAG announced that AmGeneral Holdings Berhad (AmGeneral), the Malaysian business in which it held a 49% interest, had signed an Implementation Agreement for the proposed sale of its insurance business to Liberty Insurance Berhad (Liberty). Regulatory approval for the sale was received on 28 June 2022 with final completion of the transaction (including distribution of sale proceeds to IAG through a Court-approved capital reduction) occurring in July 2022.
- On 5 April 2022, the Company issued NZ$400 million of subordinated term notes. After allowance for a reinvestment offer applicable to the NZD subordinated convertible term notes issued in 2016, the Company raised a net amount of NZ$212 million. The subordinated term notes qualify as Tier 2 Capital under APRA's Prudential Framework for General Insurers and were quoted on the NZX Debt Market on 6 April 2022.
- On 15 June 2022, the Company redeemed the remaining NZD subordinated convertible term notes, issued in 2016.

## 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 12 August 2022, the Board determined to pay 70% franked final dividend of 5.0 cents per share. The dividend will be paid on 22 September 2022. The DRP will operate likely by acquiring shares on-market for participants with no discount applied.
- On 1 August 2022, IAG announced that it has been served with a shareholder representative proceeding filed in the Supreme Court of Victoria on behalf of persons who acquired shares in IAG during the period 11 March 2020 and 20 November 2020 (inclusive), in relation to IAG's disclosure of the potential impact of COVID-19 related business interruption claims. IAG intends to defend the proceeding. Refer to Note 7.1 for further details on contingent liabilities.
- On 28 July 2022, IAG completed the sale of AmGeneral Insurance Berhad (AmGeneral), the Malaysian business in which it held a 49% interest, to Liberty Insurance Berhad (announced on 19 July 2021). IAG's share of the sale proceeds was approximately $344 million, received in cash and subject to post-close adjustments. Completion of the sale has contributed an improvement in IAG's regulatory capital position of around $150 million.

## 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 $1,110,000 (refer to Note 8.3 for further details of costs incurred on individual non-audit assignments).

## 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 every liability incurred by the person in the relevant capacity (except a liability for legal costs). In respect of legal costs, the indemnity applies to all legal costs incurred in defending or resisting (or otherwise in connection with) certain legal proceedings in which the person becomes involved because of that capacity.

The indemnity does not apply where the Company is forbidden by statute to indemnify the person against the liability or legal costs or, if given, would be made void by statute.

In addition, the Company has entered into deeds of indemnity (in the form of individual deeds or an indemnity deed poll) to certain current and former Directors and Secretaries and members of senior management of the Company and its subsidiaries (together, Officers). Under these deeds, the Company:

- indemnifies, to the maximum extent permitted by law, Officers against liabilities incurred by the person in the relevant capacity; and
- is also required to maintain and pay the premiums on a contract of insurance covering the Officers against liabilities incurred in respect of the relevant office to the maximum extent permitted by law. The insurance is maintained until the seventh anniversary after the date when the relevant person ceases to hold office (or until proceedings commenced before that date are finally resolved).

The Company has purchased Directors' and Officers' liability insurance, which insures against certain liabilities (subject to exclusions) in respect of Officers. Under the contract of insurance all reasonable steps must be taken by the insured and the Company not to disclose the insurance premium and the nature of liabilities covered by such insurance.

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

The lead auditor's independence declaration is set out on page 54 and forms part of the Directors' Report for the year ended 30 June 2022.

## ROUNDING OF AMOUNTS

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 (ASIC). Amounts in the financial report and Directors' Report have been rounded to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that instrument.

# REMUNERATION REPORT

## LETTER FROM THE CHAIRMAN OF THE PEOPLE AND REMUNERATION COMMITTEE

Dear Shareholders,

On behalf of the People and Remuneration Committee (PARC) and the Board, I am pleased to present the 2022 Remuneration Report.

**Responding to your feedback**
The Board and PARC are determined to ensure that Executive remuneration continues to be aligned with IAG's business strategy, the market and most importantly, shareholder outcomes.

The first 'strike' against our Remuneration Report last year sent us strong and clear feedback on Executive remuneration outcomes, and the principles that guided our decision making. As a Board, we reflected deeply on this feedback, and we have made changes to ensure Executive remuneration outcomes are more closely aligned with shareholder outcomes.

The changes reflect the work of the external review of IAG's remuneration framework that we flagged last year. They were further guided by a PARC led working group that considered underlying structural issues and proposed changes. These are intended to:

- ensure **greater alignment** between shareholder outcomes and Executive remuneration outcomes;
- introduce a **simpler approach** to performance measurement and some aspects of remuneration; and
- be more **transparent** around the process, including how we make remuneration decisions.

While the changes to our remuneration framework will be fully implemented for FY23 onwards, we applied a number of the key new shareholder alignment performance measures for FY22. These include replacing cash earnings with net profit after tax (NPAT) before amortisation of acquired intangibles (NPAT before amortisation) as the measure to determine short-term incentive (STI) pool funding.

The elements of the Group Balanced Scorecard (Group BSC) were set at the commencement of the performance year prior to the AGM and as result are unchanged for FY22 but have been replaced by a more strategically-focused BSC for FY23.

At the same time, we are conscious of the need to appropriately reward our employees, particularly given the challenges they have had to address this year as a result of the number and degree of weather events, and the ongoing challenge of COVID-19.

**What is changing?**
**Greater alignment**
As an overarching principle, all one-off unusual items, or financial statement adjustments during the performance period will be included when we determine outcomes for STI or long-term incentive (LTI) return on equity (ROE) hurdles.

We have established earnings calculation principles the Board uses when it considers whether adjustments to incentive outcomes are required to help ensure any discretion exercised is also aligned with shareholder outcomes, and considers market, community, and regulator expectations. The principles support transparent disclosure of the rationale in cases where discretion has been applied.

**A simplified approach**
We have simplified the Group BSC we will use to determine the STI for FY23. We use the Group BSC to align the organisation to delivering the outcomes outlined in our 5-year strategy and ambition. To make it more effective, the weighting on financial measures in the Group BSC will increase from 50% to 60%, and we will have two financial measures, being underlying insurance profit to reflect the quality of earnings, and NPAT, because this is a true and unadjusted representation of statutory profit / earnings in the period and more closely aligns to the shareholder experience.

We have also reduced the total number of measures in the Group BSC from eight to six, and each measure has a direct link to one of the four strategy pillars. Non-financial measures will support customer growth above market growth; digital transformation; risk management; and performance underpinned by employee engagement. Details are set out in Section D. I. We will continue to review the Group BSC measures to ensure they support the execution of our strategy.

The Board has committed to introduce ESG metrics into Executive incentive arrangements for FY24 and is working through the approach.

**Transparency**
To improve the transparency of our STI financial targets and outcomes, we have begun to disclose these in the 2022 Remuneration Report. We have also disclosed additional detail on the determination of the STI pool, the earnings calculation and Board decision-making processes.

**Alignment of remuneration outcomes with business results**
The business delivered strong gross written premium growth of 5.7% and improved its underlying business performance despite the challenging external environment which included an unprecedented level of natural perils claims and volatile investment markets.

NPAT was $347 million, compared to a $427 million loss in FY21. The result incorporates strengthening of prior period reserves, a high number of natural peril events, volatile investment markets, and a higher inflationary environment. NPAT also included a $200 million pre-tax release from the business interruption provision, and strong momentum in the underlying business performance.

On a management results basis, our reported insurance profit of $586 million represented a reported insurance margin of 7.4%, compared to 13.5% in FY21 after net natural peril costs of $1,119 million ($354 million above our original allowance); prior period reserve strengthening of $172 million; and negative credit spread impacts of $45 million.

**FY22 short-term incentives (STI) outcomes**
The Board determined it was appropriate to establish an Executive STI pool for FY22 at 20% of maximum, representing 33% of target payout. In making this decision, the Board recognised the strength of the overall balanced scorecard outcome. However, the Board used the NPAT before amortisation result as the key factor in determining the size of the STI pool to closely align Executive remuneration outcomes with shareholder outcomes.

The NPAT before amortisation result used to determine STI outcomes excluded the $200 million pre-tax benefit associated with the reversal of a portion of the Business Interruption provision. The adjusted FY22 NPAT before amortisation result of $214 million (which was 33% of target) was significantly affected by the high level of natural peril claims, volatile investment markets and strengthening of prior period reserves.

Each Executive's share of the STI pool was determined based on an assessment of their performance against Group and Divisional scorecards. In line with the size of the Executive STI pool, the Group CEO STI outcome was 20% of maximum, with the outcome for other Executives ranging from 17% to 22%.

**LTI relating to performance periods ending in FY22**
The FY18 LTI award with a relative total shareholder return (TSR) performance hurdle was measured during the year ended 30 June 2022 following the conclusion of the performance period on 30 September 2021. The FY19 LTI awards with cash ROE and relative TSR performance hurdles were measured at the end of the 30 June 2022 performance period.

Both the FY18 TSR LTI award and the FY19 TSR LTI awards did not meet the performance threshold and as a result there has been nil vesting of these awards.

We included all FY21 and FY22 one-off items in the cash ROE calculation for the FY19 LTI award with a performance period ending 30 June 2022; this resulted in nil vesting for that tranche.

We will replace cash ROE with reported ROE for the LTI to be granted in November 2022 (FY23 award), using a simple and transparent reported ROE measurement approach that is explained in detail in Section E. III.

As in past years, the Managing Director and CEO's LTI grant will be subject to shareholder approval at the AGM.

**Risk-based adjustments to performance pay**
In response to risk matters that emerged during FY22, the Board applied downward adjustments to reduce the FY22 STI awards of three employees and the accountable Executive.

**Changes to Executive pay and Non-Executive Director fees**
There were no increases to Executive pay recommended for FY23 as part of the August 2022 review. Likewise, the Board has left Board and Committee fees unchanged for the year ending 30 June 2023; these have now been unchanged since the year ended 30 June 2017.

**Executive remuneration review during FY23**
It is important that we continue to attract, motivate, and reward Executives for their work, and we acknowledge the improved underlying performance of the business, which is reflected in the improved outlook that management has provided for FY23.

From FY23, we will more closely link STI outcomes to progress in the four strategic ambitions to ensure Executives are motivated to drive IAG's long-term aspirational goals.

We will maintain our focus on aligning Executive and shareholder outcomes. At the same time, we will ensure our remuneration framework is fit-for-purpose and complies with regulatory changes such as APRA Prudential Standard CPS 511 as they become effective.

Thank you for taking the time to read the Remuneration Report and we welcome your feedback.

George Savvides

George Savvides

Chairman, People and Remuneration Committee

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Abbreviations used in the Remuneration Report are outlined in the table below.

ABBREVIATIONS

| | |
|---|---|
| Group BSC | Group Balanced Scorecard |
| DARs | Deferred Award Rights |
| EPRs | Executive Performance Rights |
| FP | Fixed Pay |
| KMP | Key Management Personnel |
| LTI | Long-term incentive |
| NARs | Non-Executive Director Award Rights |
| NPAT(1) | Net profit after tax |
| NPAT before amortisation(2) | Net profit after tax before amortisation of acquired intangibles |
| PARC | People and Remuneration Committee |
| ROE | Return on equity |
| STI | Short-term incentive |
| TSR | Total shareholder return |
| VWAP | Volume weighted average price |
| WACC | Weighted average cost of capital |

(1) NPAT will replace cash earnings as the earnings measure for the FY23 ROE hurdled LTI awards and will also be used as a FY23 Group BSC measure.

(2) NPAT before amortisation replaced cash earnings as the FY22 STI pool funding measure.

**A. KMP COVERED BY THIS REPORT**

This report sets out the remuneration details for IAG's KMP. KMP is defined as persons having authority and responsibility for planning, directing, and controlling the activities of an entity, directly or indirectly, including any director (whether Executive or otherwise) of that entity. For the purposes of this report, the term Executive KMP is used to refer to KMP who are Executives. Although the Non-Executive Directors are disclosed in the report, they do not have management responsibility. IAG's KMP for FY22 are presented in the table below.

If an individual did not serve in a KMP role for the full financial year, all remuneration is disclosed for the period they served in a KMP role.

| NAME | POSITION | TERM AS KMP |
|---|---|---|
| **EXECUTIVE KMP** | | |
| Nick Hawkins | Managing Director and Chief Executive Officer | Full year |
| Julie Batch | Group Executive, Direct Insurance Australia | Full year |
| Jarrod Hill | Group Executive, Intermediated Insurance Australia | From 13 September 2021 |
| Peter Horton | Group General Counsel and Company Secretary(1) | Full year |
| Michelle McPherson | Chief Financial Officer | Full year |
| Neil Morgan | Chief Operating Officer | Full year |
| Tim Plant | Chief Insurance and Strategy Officer, Acting Chief Risk Officer(2) | From 15 November 2021 |
| Christine Stasi | Group Executive, People, Performance and Reputation | Full year |
| Peter Taylor | Chief Risk Officer | From 18 May 2022 |
| Amanda Whiting | Chief Executive, New Zealand(3) | Full year |
| **FORMER EXECUTIVE KMP** | | |
| David Watts | Chief Risk Officer | Ceased 11 February 2022 |
| **NON-EXECUTIVE DIRECTORS** | | |
| Tom Pockett | Chairman, Independent Non-Executive Director(4) | Full year |
| Simon Allen | Independent Non-Executive Director | Full year |
| David Armstrong | Independent Non-Executive Director | From 1 September 2021 |
| Sheila McGregor | Independent Non-Executive Director | Full year |
| Jon Nicholson | Independent Non-Executive Director | Full year |
| Helen Nugent | Independent Non-Executive Director | Full year |
| Scott Pickering | Independent Non-Executive Director | From 1 November 2021 |
| George Sartorel | Independent Non-Executive Director | From 1 September 2021 |
| George Savvides | Independent Non-Executive Director | Full year |
| Michelle Tredenick | Independent Non-Executive Director | Full year |
| **NON-EXECUTIVE DIRECTORS WHO CEASED AS KMP** | | |
| Elizabeth Bryan | Chairman, Independent Non-Executive Director | Ceased 22 October 2021 |
| Duncan Boyle | Independent Non-Executive Director | Ceased 22 October 2021 |

(1) The Group General Counsel and Company Secretary became a KMP role effective from 1 July 2021.
(2) Tim Plant served as Acting Chief Risk Officer from 14 February 2022 to 17 May 2022.
(3) Amanda Whiting also served as Acting Group Executive, Intermediated Insurance Australia from 1 July 2021 to 12 September 2021.
(4) Tom Pockett commenced as Chairman on 22 October 2021.

There have been no changes to KMP since the end of FY22 and the release of this Report.

**B. SHAREHOLDER FEEDBACK AND IAG'S RESPONSE**

At the 2021 Annual General Meeting, IAG's shareholders expressed concerns regarding aspects of our remuneration framework and FY21 Executive remuneration outcomes, resulting in a 'strike' against the 2021 Remuneration Report (57.25% vote against). Since the strike, the Board and PARC have spent time engaging with and listening to the concerns of our shareholders, investors, and proxy advisors. We value the feedback received, including that there needs to be greater alignment between shareholder outcomes and Executive remuneration outcomes, a simpler approach to performance measurement and greater transparency including on how remuneration decisions are made. After careful consideration, the Board has taken the following actions to address the concerns raised.

| SHAREHOLDER FEEDBACK | CONCERN RAISED | IAG'S RESPONSE |
|---|---|---|
| Greater alignment between shareholder outcomes and Executive remuneration outcomes | Significant one-off items should be included in cash earnings and reflected in STI and LTI ROE vesting outcomes | ■ As an overarching principle, one-off items will be included in the earnings calculations for the on-foot ROE hurdled LTI incentive awards and the STI pool for Executive KMP. Adjustments to earnings for one-off items will only be made in limited circumstances where calculation principles will be used to guide decision making. Refer to Section G for further information.<br>■ On-foot LTI: All FY21 and FY22 one-off items were included in the ROE calculation for the FY19 LTI award with a performance period ending 30 June 2022.<br>■ FY22 STI: NPAT before amortisation has replaced cash earnings as the FY22 STI pool funding measure. The Board determined to exclude the reversal of the business interruption provision ensuring that Executive KMP do not receive a benefit from this reversal.<br>■ FY23 STI: NPAT has replaced the cash ROE measure as one of the financial measures in the FY23 Group BSC to better reflect overall performance and more closely align to the shareholder experience.<br>■ FY23 LTI grant: Reported ROE has replaced the cash ROE LTI measure for the FY23 LTI grant to be made in November 2022. NPAT is used in the calculation of Reported ROE as it represents the true representation of statutory profit/earnings. Its use more closely aligns Executive remuneration outcomes to the shareholder experience. The measurement approach will also be simplified and more transparent. In addition, vesting of the TSR grant will not occur unless performance above the 50.1th percentile is achieved. Refer Section E. III. for further details. |
| | Incentive outcomes were misaligned with Group financial performance and shareholder outcomes | ■ Strengthened earnings calculation principles: were introduced to support decisions about whether to adjust the earnings measures used to determine the STI pool funding and LTI ROE calculation. The principles are simple, clear and will be applied consistently. The principles will help ensure any adjustments are aligned with shareholder outcomes, and consider market, community, and regulator expectations. Refer to Section G for further information. |
| | CEO Fixed Pay increase not justified based on tenure and Group performance | ■ IAG will continue to benchmark Executive remuneration to ensure Fixed Pay is market competitive, reflects role responsibilities, and is sufficient to attract and retain talent. Further detail on our benchmarking approach is provided in Section E. |
| Simpler approach to performance measurement | The weighting of STI financial measures should be strengthened | ■ Number of STI measures: The number of Group BSC measures will be reduced from eight to six, and more closely aligned to IAG's strategy pillars for FY23, with two of these measures being financial (underlying insurance profit and NPAT).<br>■ Weighting of STI measures: The weighting on financial measures will be increased from 50% to 60% for the FY23 Group BSC. |
| | LTI ROE hurdle requires appropriate stretch, and the measurement approach should be simplified | ■ The ROE/WACC LTI measure will be replaced by the simpler reported ROE for the FY23 LTI awards.<br>■ Reported ROE targets will be set in line with the business strategy, and LTI awards will only vest when stretching reported ROE targets have been achieved. Further detail on reported ROE targets is provided in Section E.III. |
| Further enhancement of Executive remuneration framework | Executive remuneration framework should consider ESG | ■ The Board has committed to introduce appropriate ESG metrics into IAG's remuneration framework for FY24. The specific form and application of these measures is still to be worked through. |
| Greater transparency including on how remuneration decisions are made | Remuneration Report disclosures should be more transparent | ■ Clearer, more transparent disclosures regarding FY22 Group BSC financial measures, targets and outcomes are provided in Section D of this report.<br>■ Disclosure of the Board's remuneration decision making processes, including the factors considered when making decisions, has been enhanced. |

## C. EXECUTIVE REMUNERATION STRUCTURE AND OVERVIEW OF FY22 OUTCOMES

### I. Alignment of Executive reward to IAG's purpose and strategy in FY22

The diagram below provides an overview of the FY22 Executive remuneration framework.

**Our purpose: We make your world a safer place**

**Our business strategy: Create a stronger, more resilient IAG**

- Grow with our customers
- Build better businesses
- Create value through digital
- Manage our risk

Our purpose, along with our strategy, guides our remuneration

### Our remuneration principles

- Support IAG's purpose and alignment to shareholder outcomes
- Promote accountability and effective risk management
- Be simple, fair and equitable
- Support attraction and retention of talent
- Reduce non-financial risk
- Provide flexibility

### Fixed Pay

**Objective**

To attract high quality talent and remunerate Executives for performing their ongoing work.

**Description**

Comprises base pay and superannuation.

**Delivery**

Cash

Year 1

Refer to Section E I. for further information.

### STI

**Objective**

To reward annual performance across a range of financial and non-financial measures to support the delivery of the IAG strategy.

**Description**

Maximum opportunity of 80 – 150% of Fixed Pay, based on Group and/or Divisional balanced scorecard (as appropriate) using financial and non-financial measures and compliance and conduct gateways.

**Delivery**

| Cash 50% | DARs 25% | DARs 25% |
|---|---|---|
| Year 1 | Year 2 | Year 3 |

Refer to Section E II. for further information.

### LTI

**Objective**

To create a direct link between executive reward and the return experienced by shareholders through performance hurdles aligned to IAG's strategic targets.

**Description**

Maximum opportunity of 80 – 150% of Fixed Pay. Assessed on performance hurdles of Cash ROE relative to IAG's weighted average cost of capital (WACC) and Relative Total Shareholder Return (TSR), measured over a four year performance period.

**Delivery**

EPRs

Year 4

Refer to Section E III. for further information.

### Risk adjustment

All variable pay may be subject to risk adjustment to ensure alignment between risk management and remuneration outcomes. The Board retains the discretion to adjust downwards in-year STI awards as well as the unvested portion of any deferred STI or LTI awards, including to zero.

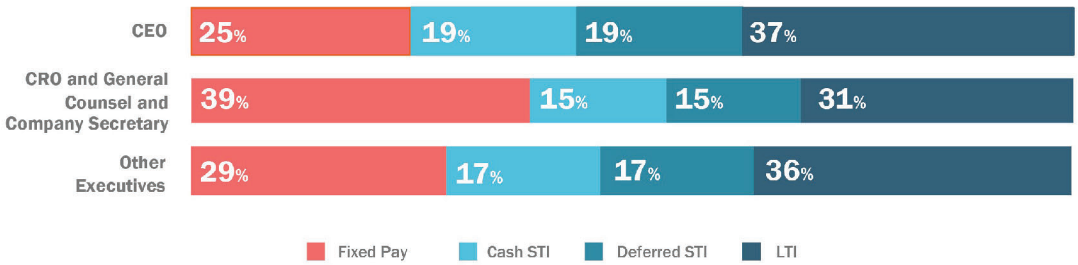
### Mandatory shareholding requirement (MSR)

The Group CEO is expected to accumulate and hold shares equal to 200% of base pay over a four year accumulation period. Other Executives are expected to accumulate and hold shares equal to 100% of base pay over a four year accumulation period or, in the case of the CRO and Group General Counsel and Company Secretary, over a five year accumulation period.

**II. Maximum remuneration mix**

The following graph illustrates the FY22 remuneration mix for Executive KMP across the elements of Fixed Pay, STI and LTI, assuming STI and LTI are paid at maximum.

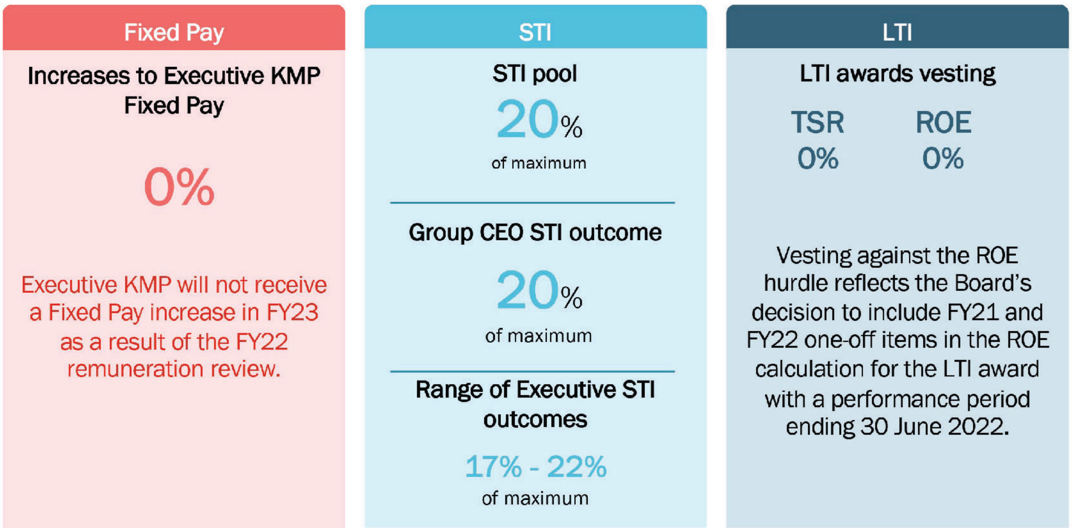
Maximum remuneration




**III. Overview of FY22 remuneration outcomes**

The following diagram presents the outcomes of the August 2022 remuneration review. Further detail regarding these outcomes is available in Section D.

Remuneration outcomes




The following graph illustrates the average FY22 actual remuneration mix across the elements of Fixed Pay, STI and LTI based on the actual STI and LTI paid or vested for Executive KMP in relation to FY22.

Due to below target FY22 short-term incentive outcomes and 0% vesting of LTIs during the year, Fixed Pay comprises the majority of FY22 actual remuneration.

Actual remuneration*


*Excludes CRO, who was not eligible for FY22 STI

**D. LINKING IAG'S PERFORMANCE AND REWARD**

**I. FY22 STI Pool and Group BSC results - linking IAG's short-term performance and short-term reward**

From FY22, NPAT before amortisation replaced cash earnings as the measure used to determine the size of the Executive STI pool. The new STI pool funding measure is more closely aligned to shareholder outcomes.

The Executive STI Pool is the total amount of money available to reward executives. The Executive STI pool is allocated to Executives based on an assessment of each Executive's performance. The Group CEO's performance is assessed against the Group BSC. Performance for all other Executive KMP is measured against the Group BSC and Divisional Scorecards.

Group BSC objectives reflect a balance of financial and non-financial performance, are approved by the Board, and designed to focus Executives on delivering superior performance outcomes against IAG's strategy pillars. The financial objectives present a holistic view of earnings and underlying profitability and reflect how effectively IAG uses its capital. Non-financial objectives assess performance relating to customer, people and risk.

The table below summarises the STI Pool outcome and IAG's Group BSC objectives and outcomes for FY22. Following feedback from shareholders (refer to Section B), clearer, more transparent disclosures regarding STI financial measures, targets and outcomes have been provided.

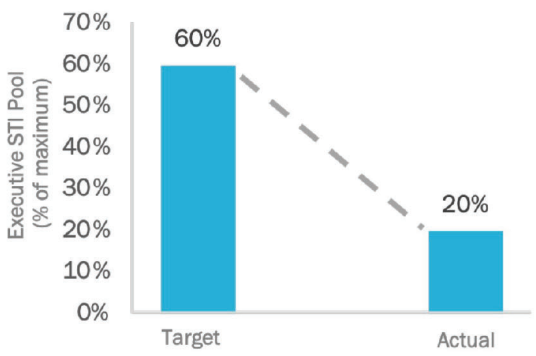
FY22 STI POOL OUTCOME

| | STI Pool at Target Performance | | FY22 STI Pool Outcome | |
|---|---|---|---|---|
| | Target NPAT[(1)] | STI Pool at Target NPAT[(1)] % of Max | Adjusted FY22 NPAT[(1)] Outcome | FY22 STI Pool Outcome % of Max |
| | $640 million | 60% | $214 million | 20% |
| Executive STI Pool outcome | The Board approved an FY22 Executive STI pool of 20% of maximum opportunity, being 33% of target payout.<br><br>In setting the Executive STI pool, the Board considered NPAT before amortisation performance, together with performance against the Group BSC. The Group BSC outcome of 2.98/5 was solid, with all but one KPI outcome between target and stretch. In a typical year, this Group BSC outcome would result in STI outcomes for Executives of around 59% of maximum. However, the Board used NPAT before amortisation performance as the key driver of the final Executive STI pool to ensure appropriate alignment with shareholder outcomes.<br><br>The adjusted FY22 NPAT before amortisation result of $214 million (33% of target) was significantly affected by the high level of natural perils claims, prior period reserve strengthening and volatile investment markets. In line with our STI earnings calculation principles, the NPAT before amortisation result used to determine STI outcomes excluded the pre-tax $200 million benefit associated with the reversal of a portion of the Business Interruption provision.<br><br>Consistent with the STI earnings calculation principles, other factors the Board considered in determining the Executive STI pool included:<br>• shareholder outcomes;<br>• the purpose of the STI plan, to attract, motivate and reward Executives in a highly competitive talent market; and<br>• the extent to which factors affecting NPAT before amortisation performance were able to be influenced by the Executive team, and the actions they took in response to challenging external circumstances.<br><br>Each Executive's share of the approved Executive STI pool was determined based on an assessment of their performance as measured through Group and Divisional scorecards. In line with the size of the Executive STI pool, the Group CEO STI outcome was 20% of maximum, with the outcome for other Executives ranging from 17% to 22%. | | | |

(1) NPAT before amortisation

The charts below show:

- the FY22 adjusted NPAT before amortisation compared to target NPAT before amortisation; and
- the Executive STI Pool at target compared to the FY22 actual Executive STI pool.

## FY22 GROUP BALANCED SCORECARD RESULTS

| Objective | Weight | Target | Scorecard Result (Low – High) | Performance Highlights |
|---|---|---|---|---|
| **Financial** | **50%** | | | |
| **Underlying Profit**<br>Underlying profit presents a holistic view of the absolute earnings power of IAG's underwriting, fee-based and associate businesses. | 25% | $1,061 million | **$1,140 million** | IAG's underlying profit of $1,140 million exceeded target, largely driven by a favourable underlying insurance margin. This reflects the strength of our core insurance business and its market leading brands. This represents an underlying insurance profit result of $1,157 million plus share of profit from associates of $17 million, less a loss from fee based businesses of $34 million. |
| **Cash ROE**<br>Cash return on equity (ROE) reflects how effectively IAG uses its capital. | 25% | 10.2% | **3.4%** | IAG's cash ROE of 3.4% did not meet the target, primarily due to the significantly higher incidence of natural perils relative to budget, prior year reserve strengthening and adverse investment market impacts, partially offset by higher underlying profit. |
| **Non-financial objectives** | **50%** | | | |
| **Direct Brand Customer Numbers**<br>Customer number growth assesses the impact of IAG's ability to design compelling product and service offerings for its customers. | 15% | 0.87% - 1.59% | **1.4%** | IAG achieved its direct brand customer numbers target mostly via a national brand launch (NRMA) including migration of HBF insurance customers, and ongoing customer focus in core portfolios (NRMA, RACV) in Australia. Against this, there was a small reduction in New Zealand. |
| **Extreme Detractor Net Promoter Score (NPS)**<br>IAG assesses the detractor NPS score to minimise and mitigate poor experiences across IAG's brands. | 5% | 7.6% - 8.1% | **7.3%** | IAG exceeded its extreme detractor NPS target through delivered customer initiatives, improved communications and reducing service delays. |
| **Employee Engagement**<br>IAG uses Employee Engagement to measure the levels of enthusiasm and commitment employees have towards IAG | 7.5% | 65% - 79% | **77%** | IAG achieved its Employee Engagement score target indicating that our people are feeling engaged and committed to IAG. |
| **Leadership Agility Indicator**<br>Leaders play a crucial role in driving the culture and outcomes through our people. Leadership Agility is made up of three components - leadership effectiveness, connectedness and decision making. | 7.5% | 70% - 84% | **88%** | IAG exceeded its Leadership Agility target reflecting high performance over the last 12 months. |

| Objective | Weight | Target | Scorecard Result: Low | Scorecard Result: High | Performance Highlights |
|---|---|---|---|---|---|
| **Non-financial objectives continued** | | | | | |
| **Risk Maturity** Risk management maturity is integral to delivering on strategy, meeting short-term objectives and achieving long-term sustainability. | 10% | Embedded | Embedded | | IAG's overall risk maturity met the target of "Embedded" for the current financial year, assessed across a wide range of risk dimensions with a specific focus on continued strengthening of control management practices. |
| **Key Control Effectiveness** An effective control environment is critical to the management of IAG's key risks and obligations. | 5% | DE>90% - 94% and OE > 85 – 89 | | DE> 95% and OE > 95% | IAG made significant progress in FY22, through iterative improvements, in the Design Effectiveness (DE) and Operational Effectiveness (OE) of prioritised key controls relating to divisional risk profiles and material compliance obligations. Testing results exceeded targets as at the end of FY22. Control effectiveness was assessed according to the IAG control assurance standard and was subject to review by Group Risk and Group Internal Audit on a sample basis. |
| **Group BSC outcome** | The BSC outcomes reflect the solid underlying performance of the business with all but one KPI between Target and Stretch. | | | | **2.98/5** |

**Changes to Group BSC for FY23**

In response to feedback received from shareholders, the weight of financial measures within the Group BSC has increased to 60% for FY23, the number of measures has reduced to six for FY23 and cash ROE has been replaced with NPAT as one of the financial measures for FY23. The targets for all BSC measures will be calibrated to support delivery of IAG's 5-year ambition and measures have been streamlined and realigned to reflect the strategic pillars.

| | Weighting | Measures | | | |
|---|---|---|---|---|---|
| Financial measures | 60% | NPAT 30% | | Underlying Insurance Profit 30% | |
| Non-financial measures | 40% | Customer Number Growth 10% | Risk Maturity 10% | Employee Engagement 10% | Customer digital adoption 10% |

## II. FY22 STI outcomes

The following table outlines the FY22 STI outcomes awarded to each Executive KMP. The average STI for all Executive KMP who received an STI was 20.67% of maximum STI opportunity.

| EXECUTIVE KMP(1) | FY22 MAXIMUM STI ($) | FY22 STI AWARDED ($) | FY22 STI AWARDED (% of maximum STI) | FY22 STI FORGONE (% of maximum STI) | FY22 CASH STI(2) ($) | FY22 DEFERRED STI(3) ($) |
|---|---|---|---|---|---|---|
| Nick Hawkins | 2,640,230 | 528,046 | 20 | 80 | 264,023 | 264,023 |
| Julie Batch | 1,080,000 | 237,600 | 22 | 78 | 118,800 | 118,800 |
| Jarrod Hill | 864,828 | 147,021 | 17 | 83 | 73,510 | 73,510 |
| Peter Horton | 720,000 | 158,400 | 22 | 78 | 79,200 | 79,200 |
| Michelle McPherson | 1,014,023 | 197,734 | 19 | 81 | 98,867 | 98,867 |
| Neil Morgan | 1,056,000 | 232,320 | 22 | 78 | 116,160 | 116,160 |
| Tim Plant | 640,920 | 141,002 | 22 | 78 | 70,501 | 70,501 |
| Christine Stasi | 948,046 | 208,570 | 22 | 78 | 104,285 | 104,285 |
| Amanda Whiting | 967,071 | 188,579 | 19 | 81 | 94,289 | 94,289 |

(1) Peter Taylor joined IAG on 18 May 2022 and will be eligible to participate in the FY23 STI.
(2) FY22 cash STI will be paid to Executives in September 2022.
(3) FY22 deferred STI will be allocated in DARs to Executives in November 2022 and will be deferred over 2 years. Refer Section E.II.

**III. FY22 LTI outcomes - Linking IAG's long-term performance and long-term reward**

During FY22, TSR performance hurdle for the FY18 LTI award reached the end of its four-year performance period on 30 September 2021. IAG's TSR was ranked at the 19th percentile of its peer group resulting in 0% vesting of this component of the FY18 LTI award.

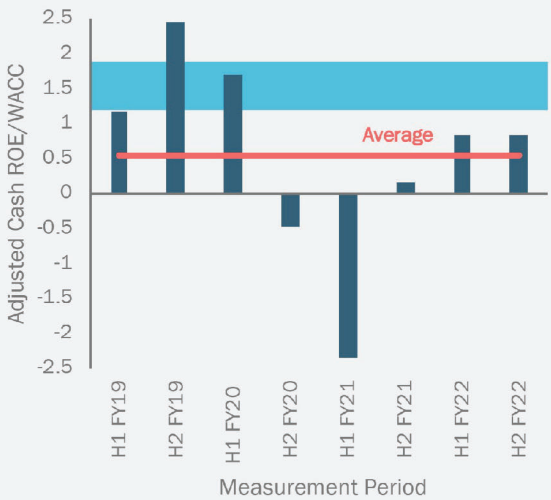
At 30 June 2022, the FY19 LTI awards with ROE and TSR performance hurdles reached the end of their four-year performance period and were also subject to testing. The following section summarises the LTI testing and vesting outcomes for these awards.

## ROE


For the FY19 LTI with a performance period ended 30 June 2022, the average adjusted cash ROE was 0.63 times WACC. Based on performance against the ROE vesting scale, the Board determined that 0% of the award would vest.

The Board included all FY21 and FY22 one-off items when calculating return on equity following shareholder feedback.

The following graph illustrates IAG's adjusted cash ROE/WACC performance over the performance period.

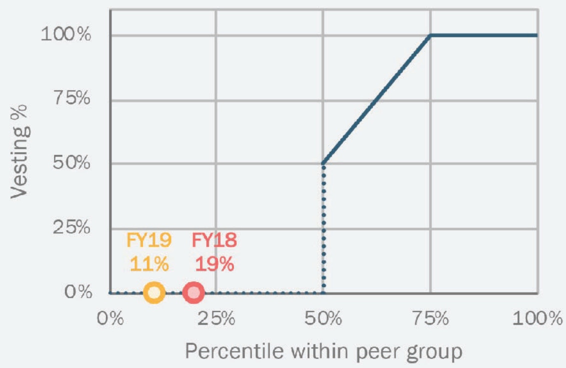



## Relative TSR


The FY18 and FY19 relative TSR LTI awards were tested as at 30 September 2021 and 30 June 2022 respectively. IAG's TSR must be ranked at or above the 50th percentile of the peer group to achieve vesting.

IAG's FY18 and FY19 TSR was ranked at the 19th and 11th percentile of the peer group respectively, resulting in nil vesting for both grants.

The following graph illustrates IAG's relative TSR, on an annualised basis, against that of the top 50 industrial companies in the S&P/ASX 100 Index for the FY18 and FY19 LTI awards.




Board and risk adjustments – For the purposes of calculating ROE for the ROE/WACC hurdled LTI tranche all FY21 and FY22 on-off items were included.

| Total LTI vesting outcome for all awards | 0% |
|---|---|

The following table presents the returns IAG delivered to shareholders for the last five financial years on a range of measures. Reported ROE has been included in the table for reference given it will replace cash ROE for future LTI awards.

| | YEAR ENDED 30 JUNE 2018 | YEAR ENDED 30 JUNE 2019 | YEAR ENDED 30 JUNE 2020 | YEAR ENDED 30 JUNE 2021 | **YEAR ENDED 30 JUNE 2022** |
|---|---|---|---|---|---|
| Closing share price ($) | 8.53 | 8.26 | 5.77 | 5.16 | **4.36** |
| NPAT ($m) | 923 | 1,076 | 435 | (427) | **347** |
| Dividends per ordinary share (cents) | 34.00 | 37.50(1) | 10.00 | 20.00 | **11.00** |
| Basic earnings per share (cents) | 39.06 | 46.26 | 18.87 | (17.82) | **14.09** |
| Cash ROE (%) | 15.6 | 14.4 | 4.5 | 12.0 | **3.4** |
| Average ROE to WACC for LTI vesting | 1.97 | 1.80 | 0.63 | (1.11) | **0.86** |
| Reported ROE (%) | 14.0 | 16.7 | 7.0 | (6.9) | **5.6** |
| Cash earnings ($m) | 1,034 | 931 | 279 | 747 | **213** |
| Underlying profit ($m) | 1,093 | 1,227 | 1,126 | 1,103 | **1,140** |

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

### IV. Actual remuneration received by Executive KMP

The table below presents remuneration paid or vested for Executive KMP in relation to FY22 which includes:

- Fixed Pay and other benefits paid during the financial year;
- the value of cash STI awards earned in relation to the financial year;
- the value of STI deferred from previous years that vested during the financial year; and
- the value of LTI awarded in previous years that has been tested since the publication of the last Remuneration Report.

The LTI values presented exclude the value of LTI awards granted during FY22. There were no increases to Executive pay for FY23 as part of the August 2022 review.

For remuneration details provided in accordance with the Australian Accounting Standards, refer to Section H.

| | FINANCIAL YEAR | FIXED PAY | OTHER BENEFITS AND LEAVE ACCRUALS | TERMINATION BENEFITS | CASH STI | DEFERRED STI | LTI | TOTAL ACTUAL REMUNERATION RECEIVED |
|---|---|---|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| | | (1) | (2) | | (3) | (4) | (5) | |
| **EXECUTIVE KMP** | | | | | | | | |
| Nick Hawkins(1) | **2022** | **1,763** | **83** | **-** | **264** | **162** | **-** | **2,272** |
| | 2021 | 1,465 | 109 | - | 634 | 272 | - | 2,480 |
| Julie Batch | **2022** | **900** | **4** | **-** | **119** | **91** | **-** | **1,114** |
| | 2021 | 875 | 4 | - | 327 | 148 | - | 1,354 |
| Jarrod Hill(6) | **2022** | **721** | **386** | - | **74** | **-** | **-** | **1,181** |
| Peter Horton(7) | **2022** | **900** | **61** | **-** | **79** | **210** | **-** | **1,250** |
| Michelle McPherson(1) | **2022** | **845** | **15** | **-** | **99** | **319** | **-** | **1,278** |
| | 2021 | 817 | 509 | - | 286 | - | - | 1,612 |
| Neil Morgan(8) | **2022** | **880** | **50** | **-** | **116** | **96** | **-** | **1,142** |
| | 2021 | 658 | 35 | - | 252 | - | - | 945 |
| Tim Plant(6) | **2022** | **534** | **367** | **-** | **71** | **-** | **-** | **972** |
| Christine Stasi(1) | **2022** | **788** | **23** | **-** | **104** | **135** | **-** | **1,050** |
| | 2021 | 750 | 36 | - | 280 | 129 | - | 1,195 |
| Peter Taylor(6) | **2022** | **107** | **7** | **-** | **-** | **-** | **-** | **114** |
| Amanda Whiting(8),(9) | **2022** | **802** | **137** | - | **94** | **23** | **-** | **1,056** |
| | 2021 | 478 | 21 | - | 168 | | - | 667 |
| **FORMER EXECUTIVE KMP** | | | | | | | | |
| David Watts(10) | **2022** | **575** | **16** | - | **-** | **59** | **-** | **650** |
| | 2021 | 875 | 34 | - | 224 | 331 | - | 1,464 |

(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*. In September 2021, Nick Hawkins, Michelle McPherson, Christine Stasi and David Watts received increases to their Fixed Pay following external benchmarking of their roles as referenced in the 2021 Remuneration Report. Amounts paid to Nick Hawkins in 2021 reflect remuneration in his role as Deputy Chief Executive Officer from 8 April 2020 to 1 November 2020 and remuneration as the Managing Director and Chief Executive Officer role from 2 November 2020.

(2) Further details are provided in Section H.

(3) Cash STI earned within the year ended 30 June 2022, to be paid in September 2022 (representing 50% of the award made for the financial year).

(4) Deferred STI vesting on 13 August 2021 was valued using the five-day VWAP of $5.28. The deferred STI vesting on 11 August 2020 was valued using the five-day VWAP of $5.06.

(5) LTI in FY22 includes FY18 TSR hurdled tranche of LTI that reached the end of its performance period in September 2021 (nil vesting) as well as the FY19 LTI which reached the end of its performance period on 30 June 2022 (nil vesting). This allows for consistent reporting of all STI and LTI awards that had a performance period ending 30 June 2022. The FY19 award which will vest on 16 August 2022 has been valued using the five-day VWAP of $4.38 on 30 June 2022 (11 August 2020: $5.06) (nil vesting). The FY21 prior year comparatives have been restated to be consistent with the current year presentation. Only Nick Hawkins and Julie Batch had amounts included in the LTI vested column in 2021 and the amounts disclosed were $469,000 and $274,000 respectively. Should the treatment in 2022 have remained consistent with prior year, the current year would have shown a $0 balance for all KMP who held FY19 LTI awards.

(6) Remuneration reflects part year service for Jarrod Hill (from 13 September 2021), Tim Plant (from 15 November 2021) and Peter Taylor (from 18 May 2022).

(7) Prior year remuneration amounts are not shown for Peter Horton as he became Executive KMP from 1 July 2021.

(8) Amounts paid in 2021 for Neil Morgan and Amanda Whiting reflect part year remuneration for time in Executive KMP roles during FY21.

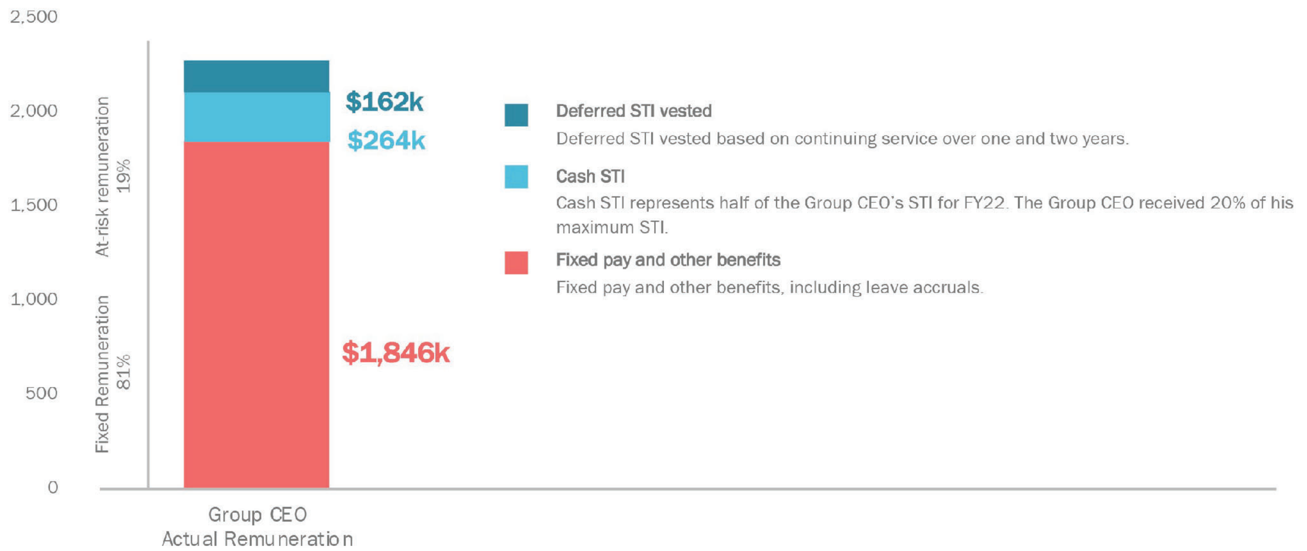
(9) Remuneration for Amanda Whiting was determined in New Zealand dollars (NZD) and reported in Australian dollars (AUD) using the average exchange rate for the year ended 30 June 2022 which was 1 NZD = 0.93752 AUD.

(10) David Watts ceased as Executive KMP on 11 February 2022. Remuneration reflects part year service.

**V. Group CEO FY22 actual remuneration received**

Based on the information shown in Section D. V. (Actual Remuneration Received by Executive KMP), the diagram below illustrates the components of FY22 actual remuneration received by the Group CEO, including at risk remuneration from prior years vesting based on performance. Vested LTI is not shown in the below diagram as all LTI awards tested during the period lapsed as performance was below the vesting thresholds.

**Group CEO FY22 Actual Remuneration Outcomes**




## E. OVERVIEW OF REMUNERATION ELEMENTS

**I. Fixed Pay**

| | |
|---|---|
| Overview | Fixed Pay comprises cash salary and superannuation (KiwiSaver for the Chief Executive, New Zealand). |
| Benchmarking approach | Fixed Pay is set with reference to the median pay for comparable roles in the external market, the size and complexity of the role, and the skills and experience of the individual, and to ensure it is sufficient to attract and retain talent.<br><br>For Executive KMP, the FY22 benchmarking included financial services (i.e., Banking and Insurance) companies in the S&P/ASX 100 Index and the 10 companies above and below IAG's market capitalisation. |

**II. STI**

The table below outlines key features of the FY22 STI plan for Executive KMP.

| DESIGN FEATURE | APPROACH | | |
|---|---|---|---|
| Objective | STI is performance-based, at-risk component of remuneration, which is designed to motivate and reward Executive KMP for superior financial and non-financial performance in the financial year. | | |
| Participants | All Executive KMP. | | |
| STI maximum | **Role** | **FY22 maximum STI (% of Fixed Pay)** | **FY22 maximum STI (% of total remuneration)** |
| | Group CEO | 150% | 38% |
| | Other Executive KMP | 120% | 34% |
| | Chief Risk Officer and Group General Counsel and Company Secretary | 80% | 30% |
| Gateways | To be eligible for an STI, Executive KMP must meet compliance and conduct gateways. These gateways assess adherence to IAG's Code of Ethics and Conduct and individual conduct in managing the business and completion of mandatory training. | | |

| DESIGN FEATURE | APPROACH |
|---|---|
| Funding | The Board considers the Group's NPAT before amortisation performance against plan when determining the overall STI funding for the year.<br><br>In response to shareholder feedback, the FY22 STI pool funding was determined based on NPAT before amortisation to better align Executive remuneration with shareholder outcomes. The Board also established STI earnings calculation principles (refer to Section G). The Board considers the NPAT before amortisation measure appropriate as it includes one-off items and aligns more closely with IAG's reported financial performance. |
| Performance measures & assessment | Performance is measured against the Group BSC for the Group CEO, and Group BSC and Divisional Scorecards for all other Executive KMP. Performance measures comprise financial and non-financial objectives aligned to our strategy pillars. Further information regarding the FY22 Group BSC is set out in Section D of this report.<br><br>The Board assesses the risk management performance and conduct of each Executive and may apply discretion to individual STI outcomes to ensure outcomes appropriately reflect performance (including any events from prior years that have come to light in the current year). |
| Delivery | Half the STI award is paid in cash in the September following the end of the financial year for which performance is assessed. The other half is deferred for up to two years based on continued service.<br><br>Deferred STI is typically paid in the form of DARs. DARs are rights that entitle participants to receive one IAG share, granted at no cost to the Executive. No dividend is paid on any unvested, or vested and unexercised DARs. The number of DARs issued is calculated based on the VWAP of the Company's ordinary shares over the 30 days up to and including 30 June before the grant date. |
| Forfeiture | Unvested DARs will generally lapse if an Executive resigns prior to the vesting date, except in special circumstances (redundancy, retirement, death, or total and permanent disablement).<br><br>When an Executive ceases employment in special circumstances, any unvested DARs may be retained, subject to Board discretion. Any DARs retained will remain subject to the existing terms and conditions of the award, including the vesting date.<br><br>In cases where an Executive ceases employment for serious misconduct, all DARs will lapse whether exercisable or not. |
| Exercising 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. |
| Expiry date | DARs expire seven years from the grant date, or on any other date determined by the Board (Expiry Date). DARs that are not exercised before the Expiry Date will lapse. |

**Changes to STI for FY23**

In response to feedback received from shareholders and to simplify the STI plan, the number of Group BSC measures will be reduced from eight to six, the weighting on financial measures will be increased to 60% increasing the focus on delivering sustainable outcomes for our shareholders, and cash ROE will be replaced by NPAT as a measure in the Group BSC. Further detail on these changes will be provided in the 2023 Remuneration Report.

### III. LTI

The table below outlines key features of the FY22 LTI plan that was allocated to Executives during the year ended 30 June 2022 for Executive KMP.

| DESIGN FEATURE | APPROACH | | |
|---|---|---|---|
| Objective | LTI is a performance based, long-term value dependent, and at-risk component of remuneration. It links Executive reward to shareholder outcomes through performance hurdles aligned to IAG's strategic objectives. | | |
| Participants | All Executive KMP. | | |
| LTI maximum | **Role** | **FY22 maximum LTI (% of Fixed Pay)** | **FY22 maximum LTI (% of total remuneration)** |
| | Group CEO | 150% | 37% |
| | Other Executive KMP | 125% | 36% |
| | Chief Risk Officer and Group General Counsel and Company Secretary | 80% | 31% |

| DESIGN FEATURE | APPROACH | | |
|---|---|---|---|
| | All current Executives, other than the Chief Risk Officer, received FY22 LTI awards. These awards were based on the percentages in the table above and the Executive's Fixed Pay at the time of the award. The FY22 LTI award will reach the end of its performance period on 30 June 2026. For details of the number of rights granted to each Executive KMP refer Section H. IV. Movement in Equity Plans within the Financial Year. | | |
| Instrument | LTI awards are determined annually by the Board and granted in the form of EPRs. EPRs are rights that entitle participants to receive one IAG share (or cash equivalent where determined by the Board), subject to achieving performance hurdles. | | |
| Allocation methodology | The number of EPRs issued is calculated by dividing the Executive's LTI opportunity by the share price (30-day VWAP up to 30 June). | | |
| Dividend entitlements | No dividend is paid or payable on any unvested, or vested and unexercised, EPRs. | | |
| Performance period | Four years. | | |
| Performance hurdles | | **ROE (50% weighting)** | **Relative TSR (50% weighting)** |
| | Description | Cash ROE focuses on the return delivered on shareholders' funds and is a direct reflection of IAG's performance, without being impacted by the performance of other companies.<br>Cash ROE is calculated by dividing the cash earnings of IAG by the average total shareholders' equity. The resulting figure is then expressed as a multiple of IAG's WACC. | Relative TSR provides a measure of the return IAG delivers to shareholders relative to a peer group. Relative TSR is measured against the TSR of the top 50 industrial companies in the S&P/ASX 100 Index. Industrial companies include all companies excluding those in the energy sector and the metals & mining industry. |
| | Definition | Cash earnings is defined as NPAT attributable to owners of the Company adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. The Board will use the LTI earnings calculation principles developed in FY22 (refer Section G) to determine whether earnings need to be adjusted for unusual items after tax (non-recurring in nature). | 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. |
| | Testing | The ROE vesting outcome is based on the average adjusted cash ROE across the performance period (the eight half-year periods) divided by the average WACC over the same timeframe.<br>In determining vesting outcomes, the Board considers the overall quality of earnings over the performance period, including using the LTI earnings calculation principles to guide decision making on differences between the statutory profit and cash earnings, as well as consideration of movements in the cost of capital. | Relative TSR performance is measured between 30 June of the base year and 30 June of the test year.<br>The opening and closing share price for the TSR calculation for IAG and peer group companies uses a three-month VWAP. |

<table>
<tr><th>DESIGN FEATURE</th><th>APPROACH</th></tr>
<tr><td>Vesting schedule</td><td>
<table>
<tr><th>Cash ROE</th><th>% of LTI vesting</th></tr>
<tr><td>Less than 1.4 times WACC</td><td>0%</td></tr>
<tr><td>1.4 times WACC</td><td>20%</td></tr>
<tr><td>1.9 times WACC</td><td>100%</td></tr>
</table>
Straight-line vesting between 1.4 times WACC and 1.9 times WACC.
<table>
<tr><th>Relative TSR percentile ranking</th><th>% of LTI vesting</th></tr>
<tr><td>Less than 50th percentile</td><td>0%</td></tr>
<tr><td>At the 50th percentile</td><td>50%</td></tr>
<tr><td>At or above the 75th percentile</td><td>100%</td></tr>
</table>
Straight-line vesting between the 50th and 75th percentile of the peer group.
</td></tr>
<tr><td>Retesting</td><td>No retesting. If the performance hurdles are not met, the awards are forfeited.</td></tr>
<tr><td>Forfeiture</td><td>Unvested rights will generally lapse if an Executive resigns before the performance hurdles are tested, except in special circumstances (redundancy, retirement, death or total and permanent disablement).<br><br>When an Executive ceases employment in special circumstances, any unvested rights may be retained, subject to Board discretion. Any rights retained will remain subject to the original performance conditions.<br><br>In cases where an Executive ceases employment for serious misconduct, all EPRs will lapse whether exercisable or not.</td></tr>
<tr><td>Expiry date</td><td>EPRs expire seven years from the grant date, or on an Expiry Date determined by the Board. EPRs that are not exercised before the Expiry Date will lapse.</td></tr>
</table>

**Changes to LTI for FY23**

For the FY23 LTI grant to be made in November 2022 (subject to shareholder approval for the Managing Director and Chief Executive Officer), the existing ROE LTI measure will be replaced by reported ROE. Reported ROE will be calculated by dividing NPAT by average total shareholder equity. This measure is simpler and better aligns the LTI to shareholder outcomes over the longer term. The reported ROE targets will be as follows:

| ROE performance | % of LTI vesting |
|---|---|
| Below 10% | 0% |
| At 10% | 20% |
| Between 10% and below 14% | Straight-line vesting |
| At or above 14% | 100% |

Straight-line vesting will occur between 10% and 14% ROE performance.

For the FY23 LTI grant to be made in November 2022, the point at which vesting commences for the relative TSR hurdle will increase from the 50th percentile of the peer group to the 50.1th percentile. The revised relative TSR vesting schedule will be as follows:

| Relative TSR percentile ranking | % of LTI vesting |
|---|---|
| Below the 50.1th percentile | 0% |
| At the 50.1th percentile | 50% |
| Above the 50.1th and below the 75th percentiles | Straight-line vesting |
| At or above the 75th percentile | 100% |

This change ensures that TSR performance must exceed the median level of performance before vesting will occur. Straight-line vesting will occur between the 50.1th and 75th percentile of the peer group.

## F. NON-EXECUTIVE DIRECTOR ARRANGEMENTS

### I. Remuneration policy

The principles that underpin IAG's approach to fees for Non-Executive Directors are that fees 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. Fee structure

Non-Executive Director remuneration comprises:

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

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

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

### III. Board and Committee fees

A summary of FY22 fees for the Insurance Australia Group Limited Board is set out in the table below. Board and Committee fees are inclusive of superannuation.

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

### IV. Changes to Non-Executive Director fees

No changes were made to the Board and/or Committee fees for the Board in FY22. There have been no changes to fees since FY17.

### V. 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 VWAP leading up to and including 30 June, the value of shares at acquisition, and the Non-Executive Director's base Board fee from the start of the accumulation period.

All Non-Executive Directors with a testing date of 30 June 2022 have met the applicable mandatory shareholding requirement.

### VI. Non-Executive Director Award Rights Plan (NARS Plan)

Non-Executive Directors may elect to receive some of their fees in rights over IAG shares (NARs). Structuring Non-Executive Director fees in this manner supports Non-Executive Directors to build their shareholdings in IAG. This enhances the alignment of interest between Non-Executive Directors and shareholders as well as facilitating the achievement of mandatory shareholding requirements.

| DESIGN FEATURE | APPROACH |
|---|---|
| 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. |
| Vesting conditions | A service condition is attached to the vesting of the NARs. NARs are divided into twelve equal tranches. Vesting of each tranche is subject to minimum continuous engagement as a Director from the allocation date until the applicable vesting for that tranche. 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.<br><br>There are no performance conditions attached to the NARs plan. |
| 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 for nil consideration. |
| Allocation methodology | The number of NARs offered during the 2022 financial year was determined by dividing the amount of the base Board fee nominated by the five-day VWAP over the five trading days from 8 November 2021, rounded up to the nearest NAR. |
| Voting rights | NARs do not carry voting rights until they are exercised and the Non-Executive Director holds shares in IAG. |
| Expiry date | NARs expire 15 years from the grant date, or on any other Expiry Date determined by the Board. NARs that are not exercised before the Expiry Date will lapse. |
| 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. |

## G. EXECUTIVE REMUNERATION GOVERNANCE

### I. IAG's approach to remuneration governance

A robust governance framework is in place to carefully manage remuneration and any associated risks. The diagram below illustrates the key stakeholders involved in supporting our remuneration governance framework. The PARC's responsibilities are set out in the Board People and Remuneration Committee Charter.

**BOARD**
Ensures the Group remuneration framework is aligned to the short and long-term interests of IAG and its shareholders and is compliant with applicable regulations.
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
- Preparation of statutory remuneration disclosures.

**RISK COMMITTEE, CHIEF RISK OFFICER AND EGM GROUP INTERNAL AUDIT**
Provide input into remuneration recommendations, including variable remuneration outcomes.

**EXTERNAL REMUNERATION ADVISORS**
PARC engages remuneration consultants to provide information that assists the Board in making remuneration decisions.

**MANAGEMENT**
The Group CEO recommends Executive remuneration and contract terms to PARC, which then makes a recommendation to the Board.
Executives may attend PARC meetings, by invitation, to assist the committee and provide updates on people-related strategy and initiatives.
Potential conflicts of interest are appropriately managed or avoided.

**II. Risk management and governance mechanisms**

The following policies support IAG's risk management and remuneration governance frameworks.

<table>
<tr><td>Board discretion</td><td>Variable pay reinforces behaviours and supports outcomes aligned to IAG's purpose and strategy pillars. It encourages both prudent risk taking and risk mitigation that protects the long-term sustainability, financial soundness, and reputation of the Group and aligned with shareholders. The Board retains overriding discretion to adjust variable pay (upwards, downwards and to zero) including:<br>▪ 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;<br>▪ where it is necessary to protect the Group's long-term financial soundness;<br>▪ to take into account the outcomes of business activities;<br>▪ where it is required by law or APRA Prudential Standards; or<br>▪ any other circumstances the Board determines are relevant.</td></tr>
<tr><td>STI and LTI earnings calculation principles – Introduced from FY22</td><td>The Board has the discretion to adjust upwards and downwards:<br>▪ the size of the Group STI pool under the STI plan, and to award different STI allocations to different segments of employees; and<br>▪ LTI vesting outcomes to ensure the performance of the Group and individual are aligned to shareholder outcomes and expectations.<br><br>As an overarching principle, all one-off, unusual items, or financial statement adjustments during the financial year will be included when measuring financial performance. Performance adjustments may be made in limited circumstances for items that meet the Group materiality threshold individually or collectively during the performance period.<br><br>Following feedback from shareholders (refer to Section B), when considering whether an adjustment is to be made, the following earnings calculation principles will be used to guide decision making to ensure stakeholder interests are fairly balanced and support consistent application of Board discretion year-on-year. Any adjustment decisions will consider:<br>▪ alignment with shareholder, market, regulator and community expectations;<br>▪ shareholder outcomes;<br>▪ the impact on IAG's reputation;<br>▪ the purpose and integrity of the STI or LTI plan;<br>▪ the circumstances surrounding the item;<br>▪ whether the item was within the Executive team's control or influence;<br>▪ whether the item resulted from conduct contrary to the Company's risk appetite;<br>▪ actions taken (or not taken) by management to mitigate risk or reduce the impact of the item;<br>▪ the extent to which the matter has been reflected in outcomes for other incentive schemes and/or risk adjustment decisions;<br>▪ whether the performance assessment and/or outcomes reflect the impact of unforeseen events on the business and shareholder value; and<br>▪ the level of performance expected when the original targets were set.<br><br>Where possible, adjustments to LTI will be made at the time of vesting.</td></tr>
<tr><td>Risk adjustment</td><td>In order to support the Board in making a risk adjustment, the Chief Risk Officer and the Executive General Manager, Group Internal Audit conduct an annual risk review to identify any material risk matters that may have emerged during the year (relating to either the current or prior financial years). The Board's assessment of identified risk matters and determination of risk related adjustments to variable pay is outlined below.<br><br>1. Assessment of risk matters: The Risk Committee assesses the severity of the impact of a matter before then considering the individuals involved.<br>2. Determination of adjustment: The PARC supports the Board in determining the quantum of adjustments with reference to the Risk Committee's assessment and applying judgment to ensure the adjustment is appropriate and reasonable.<br>3. Application of adjustment: The Board approved adjustments may be applied using the following levers:<br>a. Reductions to in-year STI awards; and/or<br>b. Adjustments to unvested LTI awards and/or deferred STI.<br><br>In response to risk matters that emerged during FY22, or where further information came to light in relation to prior year matters, the Board determined to make a number of downward risk-related adjustments to STI awards for FY22. In total, risk adjustments were made to four employees and ranged from 10% to 20% of their FY22 STI.</td></tr>
<tr><td>Malus</td><td>The Board retains the discretion to adjust downwards the unvested portion of any deferred STI or LTI awards, including to zero.</td></tr>
</table>

| | |
|---|---|
| Hedging | Executives may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements to IAG securities. |
| Mandatory shareholding requirement for Executive KMP | The mandatory shareholding requirement allows Executives to build a long-term shareholding in IAG. Compliance with this requirement is assessed at the end of each financial year. 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 VWAP leading up to and including 30 June, the value of shares at acquisition, and the Executive's base pay from the start of the accumulation period.<br><br>All Executives with a testing date of 30 June 2022 have met the applicable mandatory shareholding requirement. |

| | Ordinary shares to accumulate and hold | Period to accumulate (from date of appointment) |
|---|---|---|
| Group CEO | 2 x base pay | Four years |
| Executives (other than the Chief Risk Officer and Group General Counsel and Company Secretary) | 1 x base pay | Four years |
| Chief Risk Officer and Group General Counsel and Company Secretary | 1 x base pay | Five years |

**III. Use of remuneration advisors**

During the year PwC was engaged to provide Non-Executive Director and Executive remuneration benchmarking. The remuneration data provided was used as an input to the remuneration decisions by the Board only. The Board considered the data provided, together with other factors, in setting Executive's remuneration. EY was engaged by the PARC to conduct a review of IAG's remuneration framework and provide market insights to support the company's response to the 2021 Remuneration Report strike. No remuneration recommendations, as defined in the *Corporations Act 2001*, were provided by the remuneration advisors.

## H. OTHER STATUTORY DISCLOSURES

### I. FY22 Executive KMP statutory remuneration

Statutory remuneration details for Executives as required by Australian Accounting Standards are set out in the table below.

| | SHORT-TERM EMPLOYMENT BENEFITS | | | POST EMPLOYMENT BENEFITS | OTHER LONG-TERM EMPLOYMENT BENEFITS | TERMINATION BENEFITS | SUB-TOTAL | SHARE-BASED PAYMENT | | TOTAL REWARD | AT-RISK REMUNERATION |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Base pay | Cash STI | Leave accruals and other benefits | Superannuation | 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 KMP** | | | | | | | | | | | |
| Nick Hawkins[1] | | | | | | | | | | | |
| **2022** | **1,735** | **264** | **57** | **28** | **26** | **-** | **2,110** | **263** | **1,065** | **3,438** | **46** |
| 2021 | 1,440 | 634 | 87 | 25 | 22 | - | 2,208 | 282 | 856 | 3,346 | 53 |
| Julie Batch | | | | | | | | | | | |
| **2022** | **872** | **119** | **(9)** | **28** | **13** | **-** | **1,023** | **139** | **529** | **1,691** | **47** |
| 2021 | 850 | 327 | (9) | 25 | 13 | - | 1,206 | 156 | 464 | 1,826 | 52 |
| Jarrod Hill[10],[11] | | | | | | | | | | | |
| **2022** | **693** | **74** | **378** | **28** | **8** | **-** | **1,181** | **129** | **114** | **1,424** | **22** |
| Peter Horton[12] | | | | | | | | | | | |
| **2022** | **872** | **79** | **48** | **28** | **13** | **-** | **1,040** | **258** | **253** | **1,551** | **38** |
| Michelle McPherson[1] | | | | | | | | | | | |
| **2022** | **817** | **99** | **3** | **28** | **12** | **-** | **959** | **270** | **206** | **1,435** | **40** |
| 2021 | 792 | 286 | 265 | 25 | 12 | - | 1,380 | 131 | 31 | 1,542 | 29 |

| | SHORT-TERM EMPLOYMENT BENEFITS | | | POST EMPLOY-MENT BENEFITS | OTHER LONG-TERM EMPLOY-MENT BENEFITS | TERM-INATION BENEFITS | SUB-TOTAL | SHARE-BASED PAYMENT | | TOTAL REWARD | AT-RISK REMUN-ERATION |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Base pay | 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) |
| Neil Morgan(13) | | | | | | | | | | | |
| **2022** | **852** | **116** | **37** | **28** | **13** | **-** | **1,046** | **141** | **558** | **1,745** | **47** |
| 2021 | 639 | 252 | 27 | 19 | 8 | - | 945 | 113 | 417 | 1,475 | 53 |
| Tim Plant(10),(14) | | | | | | | | | | | |
| **2022** | **506** | **71** | **362** | **28** | **5** | **-** | **972** | **49** | **8** | **1,029** | **12** |
| Christine Stasi(1) | | | | | | | | | | | |
| **2022** | **716** | **104** | **11** | **72** | **12** | **-** | **915** | **203** | **336** | **1,454** | **44** |
| 2021 | 686 | 280 | 25 | 64 | 11 | - | 1,066 | 155 | 193 | 1,414 | 44 |
| Peter Taylor(10),(15) | | | | | | | | | | | |
| **2022** | **95** | **-** | **54** | **12** | **-** | **-** | **161** | **-** | **-** | **161** | **-** |
| Amanda Whiting(13),(16) | | | | | | | | | | | |
| **2022** | **802** | **94** | **137** | **-** | **-** | **-** | **1,033** | **56** | **176** | **1,265** | **26** |
| 2021 | 461 | 168 | 16 | 17 | 5 | - | 667 | 29 | 53 | 749 | 33 |
| **FORMER EXECUTIVE KMP** | | | | | | | | | | | |
| David Watts(1),(17) | | | | | | | | | | | |
| **2022** | **558** | **-** | **11** | **17** | **5** | **-** | **591** | **31** | **(483)** | **139** | **N/A** |
| 2021 | 850 | 224 | 21 | 25 | 13 | - | 1,133 | 382 | 278 | 1,793 | 49 |

(1) Base pay 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*. In September 2021, Nick Hawkins, Michelle McPherson, Christine Stasi and David Watts received increases to their Fixed Pay following external benchmarking of their roles as referenced in the 2021 Remuneration Report. Amounts paid to Nick Hawkins in 2021 reflect remuneration in his role as Deputy Chief Executive Officer from 8 April 2020 to 1 November 2020 and remuneration as the Managing Director and Chief Executive Officer role from 2 November 2020.

(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 and other short-term employment benefits as agreed and provided under specific conditions.

(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 rights is included in the total remuneration disclosure above. DARs are equity settled. The deferred STI for the year ended 30 June 2022 will be granted in the next financial year, so no value was included in the current financial year's total remuneration. For Jarrod Hill and Tim Plant, amounts in this column relate to DARs granted as compensation for incentives forgone from their previous employers. See footnote (11) and (14) for further details.

(8) This value represents the allocated portion of unvested EPRs (unvested LTI). The reported amounts are an accounting valuation and do not reflect what the Executive actually received during the year, or what they will receive in future years. 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 take into account the exercise price of the EPRs, the life of the EPRs, the price of ordinary shares in the Company as at the grant date, expected volatility in the Company's share price, expected dividends, the risk-free interest rate, performance of shares in IAG's peer group of companies, early exercise and non-transferability and turnover which is assumed to be zero for an individual's remuneration calculation. EPRs are considered a hybrid share-based payment as the Board determines whether they are settled in equity or cash.

(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) Remuneration reflects part year service for Jarrod Hill (from 13 September 2021), Tim Plant (from 15 November 2021) and Peter Taylor (from 18 May 2022).

(11) Jarrod Hill received a $344,238 cash payment on 31 March 2022 and 135,500 DARs on 4 November 2021 as compensation for incentives forgone from his previous employer.

(12) Prior year remuneration amounts are not shown for Peter Horton as he became Executive KMP from 1 July 2021.

(13) Amounts paid in 2021 for Neil Morgan and Amanda Whiting reflect part year remuneration for time in Executive KMP roles during FY21.

(14) Tim Plant received a $339,781 cash payment on 9 June 2022 and 308,800 DARs on 9 June 2022 as compensation for incentives forgone from his previous employer.

(15) In November 2022, Peter Taylor will receive a $194,834 cash payment as compensation for incentives forgone from his previous employer. The portion that relates to service in the current year is shown as other benefits. This amount is not included in the Actual remuneration received by Executive KMP table in Section D.V. as it will be paid in FY23. In November 2022 he will also receive a $611,965 DARs allocation as compensation for incentives forgone from his previous employer.

(16) Remuneration for Amanda Whiting was determined in NZD and reported in AUD using the average exchange rate for the year ended 30 June 2022 which was 1 NZD = 0.93752 AUD.

(17) David Watts ceased as Executive KMP on 11 February 2022. Remuneration for 2022 reflects part year service. All unvested DARs and EPRs were fully lapsed on cessation of employment and the associated expense reversed in accordance with the terms of the relevant awards.

### II. Non-Executive Director statutory remuneration

| | SHORT-TERM EMPLOYMENT BENEFITS | | POST-EMPLOYMENT BENEFITS | | OTHER LONG-TERM EMPLOYMENT BENEFITS | TERMINATION BENEFITS | SHARE-BASED PAYMENTS (1) | 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 | | | | | | | | |
| Tom Pockett(2) | | | | | | | | |
| **2022** | **465** | **144** | **6** | **-** | **-** | **-** | **-** | **615** |
| 2021 | 185 | 77 | 14 | - | - | - | - | 276 |
| Simon Allen(3) | | | | | | | | |
| **2022** | **175** | **186** | **22** | **-** | **-** | **-** | **-** | **383** |
| 2021 | 176 | 185 | 21 | - | - | - | - | 382 |
| David Armstrong(4) | | | | | | | | |
| **2022** | **146** | **50** | **20** | **-** | **-** | **-** | **-** | **216** |
| Sheila McGregor(5) | | | | | | | | |
| **2022** | **87** | **23** | **20** | **-** | **-** | **-** | **87** | **217** |
| 2021 | 176 | 37 | 20 | - | - | - | - | 233 |
| Jon Nicholson | | | | | | | | |
| **2022** | **175** | **68** | **24** | **-** | **-** | **-** | **-** | **267** |
| 2021 | 176 | 68 | 23 | - | - | - | - | 267 |
| Helen Nugent | | | | | | | | |
| **2022** | **175** | **23** | **20** | **-** | **-** | **-** | **-** | **218** |
| 2021 | 176 | 37 | 20 | - | - | - | - | 233 |
| Scott Pickering(4),(5) | | | | | | | | |
| **2022** | **99** | **15** | **13** | **-** | **-** | **-** | **17** | **144** |
| George Sartorel(4) | | | | | | | | |
| **2022** | **146** | **30** | **18** | **-** | **-** | **-** | **-** | **194** |
| George Savvides | | | | | | | | |
| **2022** | **175** | **68** | **24** | **-** | **-** | **-** | **-** | **267** |
| 2021 | 176 | 55 | 22 | - | - | - | - | 253 |
| Michelle Tredenick(6),(7) | | | | | | | | |
| **2022** | **191** | **45** | **6** | **-** | **-** | **-** | **-** | **242** |
| 2021 | 94 | 46 | 21 | - | - | - | 65 | 226 |
| FORMER NON-EXECUTIVE DIRECTORS | | | | | | | | |
| Elizabeth Bryan(7) | | | | | | | | |
| **2022** | **178** | **53** | **8** | **-** | **-** | **-** | **-** | **239** |
| 2021 | 528 | 169 | 22 | - | - | - | - | 719 |
| Duncan Boyle | | | | | | | | |
| **2022** | **55** | **14** | **7** | **-** | **-** | **-** | **-** | **76** |
| 2021 | 176 | 74 | 24 | - | - | - | - | 274 |

(1) NARs are equity settled.

(2) Fees for Tom Pockett include fees received in his capacity as the Chairman of the Insurance Manufacturers of Australia Pty Limited Board ($184,800).

(3) Fees for Simon Allen include fees received in his capacity as the Chairman of the IAG New Zealand Limited Board ($140,628). This amount was paid in NZD and reported in AUD using the exchange rate for the year ended 30 June 2022 which was 1 NZD = 0.93752 AUD

(4) Non-Executive Director appointed part way through the year ended 30 June 2022.

(5) Cash fees paid to Sheila McGregor and Scott Pickering reflect Board fees sacrificed in respect of NARs awarded in the 2022 financial year.

(6) Cash fees paid to Michelle Tredenick reflect Board fees sacrificed in respect of NARs awarded in the 2021 financial year.

(7) Cash fees paid to Elizabeth Bryan and Michelle Tredenick in the 2021 financial year were reduced to satisfy a shortfall in Board fees sacrificed in respect of the NARs award in the 2019 financial year. The amounts disclosed in the 2019 financial year were correct.

### III. Executive employment agreements

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

| | |
|---|---|
| Contract type & term | Ongoing, permanent contract |
| Termination of employment with notice or payment in lieu of notice | The Group may terminate employment of an Executive at any time by providing 12 months' notice or payment in lieu of notice.<br><br>Executives are required to provide six months' notice of resignation, with the exception of Nick Hawkins who is required to provide 12 months' notice.<br><br>Subject to the relevant legislation in the various jurisdictions, termination provisions may include the payment of annual leave and/or long service leave. |
| Termination of employment without notice and without payment in lieu of notice | An Executive's employment may be terminated without notice and without payment in lieu of notice in some circumstances. Generally, this would occur where the Executive:<br>▪ is charged with a criminal offence that could bring the organisation into disrepute;<br>▪ is declared bankrupt;<br>▪ breaches a provision of their employment agreement;<br>▪ is guilty of serious and wilful misconduct; or<br>▪ unreasonably fails to comply with any material and lawful direction given by the relevant company. |
| Redundancy arrangements | Executives are entitled to a redundancy payment of up to 12 months' Fixed Pay. Legacy arrangements apply for Nick Hawkins, who had existing redundancy entitlements of 66 weeks of Fixed Pay, and Julie Batch, who had existing redundancy entitlements of 54 weeks of Fixed Pay. |

David Watts did not receive any benefits beyond contractual entitlements upon cessation of employment.

### IV. 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 in the table below. The DARs granted during the year ended 30 June 2022 were in relation to the STI plan and sign on awards. The EPRs granted during the year ended 30 June 2022 were in relation to the LTI plan. The NARs granted during the year ended 30 June 2022 represent the total number of rights each Non-Executive Director has agreed to receive as part of the payment of their base Board fees.

| | | 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) | | (3) | | | |
| **EXECUTIVE KMP** | | | | | | | | | | | |
| Nick | DAR | 30,600 | 124,800 | 549 | (30,600) | 143 | - | - | 124,800 | 30,600 | - |
| Hawkins | EPR | 894,468 | 531,000 | 1,674 | - | - | (113,168) | 528 | 1,312,300 | - | - |
| Julie | DAR | 17,150 | 64,300 | 283 | (17,150) | 80 | - | - | 64,300 | 17,150 | - |
| Batch | EPR | 467,927 | 221,300 | 697 | - | - | (66,027) | 308 | 623,200 | - | - |
| Jarrod | DAR | - | 135,500 | 594 | - | - | - | - | 135,500 | - | - |
| Hill(4) | EPR | - | 221,300 | 697 | - | - | - | - | 221,300 | - | - |
| Peter | DAR | 39,800 | 45,400 | 200 | (39,800) | 186 | - | - | 45,400 | 39,800 | - |
| Horton | EPR | 213,500 | 141,600 | 446 | - | - | - | - | 355,100 | - | - |
| Michelle | DAR | 129,500 | 47,600 | 209 | (60,347) | 282 | - | - | 116,753 | 60,347 | - |
| McPherson | EPR | 132,100 | 209,000 | 659 | - | - | - | - | 341,100 | - | - |
| Neil | DAR | 18,200 | 63,700 | 280 | (18,200) | 85 | - | - | 63,700 | 18,200 | - |
| Morgan(5) | EPR | 450,929 | 216,400 | 682 | - | - | (59,829) | 279 | 607,500 | - | - |
| Tim | DAR | - | 308,800 | 1,267 | - | - | - | - | 308,800 | - | - |
| Plant(6) | EPR | - | 209,000 | 576 | - | - | - | - | 209,000 | - | - |
| Christine | DAR | 51,000 | 55,200 | 243 | (51,000) | 238 | - | - | 55,200 | 25,500 | - |
| Stasi | EPR | 278,000 | 196,700 | 620 | - | - | - | - | 474,700 | - | - |
| Peter | DAR | - | - | - | - | - | - | - | - | - | - |
| Taylor | EPR | - | - | - | - | - | - | - | - | - | - |
| Amanda | DAR | 29,290 | 30,500 | 134 | (29,290) | 137 | - | - | 30,500 | 4,400 | - |
| Whiting(5) | EPR | 92,527 | 196,700 | 620 | (9,203) | 43 | (11,224) | 52 | 268,800 | - | - |

| | | 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) | | (3) | | | |
| **FORMER EXECUTIVE KMP** | | | | | | | | | | | |
| David | DAR | 11,200 | 44,200 | 194 | (11,200) | 52 | (44,200) | 206 | - | 11,200 | - |
| Watts(7) | EPR | 291,700 | - | - | - | - | (291,700) | 1,361 | - | - | - |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | | | | | |
| Sheila McGregor | NAR | - | 19,229 | 87 | - | - | - | - | 19,229 | 19,229 | 19,229 |
| Scott Pickering | NAR | - | 3,846 | 17 | - | - | - | - | 3,846 | 3,846 | 3,846 |
| Michelle Tredenick | NAR | 4,548 | - | - | (4,548) | 21 | - | - | - | - | - |

(1) Opening number of rights on issue represents the balance as at the date of appointment to a KMP role or 1 July 2021.

(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 4 November 2021 in respect of deferred STI was $4.40 per right. This amount is allocated to remuneration over the years ending 30 June 2022 to 30 June 2024. The value of the cash ROE portion of the EPRs granted on 4 November 2021 and 9 June 2022 is the fair value at grant date, calculated using the Black-Scholes valuation model, which was $4.12 and $3.76 respectively. The value of the relative TSR portion of the EPRs granted on 4 November 2021 and 9 June 2022 is the fair value at grant date, calculated using the Monte Carlo simulation, which was $2.19 and $1.75 respectively. The cash ROE and relative TSR portions of the EPRs are first exercisable after the performance period concludes on 30 June 2025. The amount is allocated to remuneration over the years ending 30 June 2022 to 30 June 2025. 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 19 November 2021 was $4.49 or $4.52 depending on the nominated vesting period. This amount was allocated to remuneration over the year ended 30 June 2022.

(3) Rights exercised and lapsed during the financial year. The value of the rights exercised and lapsed is based on the annual VWAP for the year ended 30 June 2022, which was $4.67.

(4) Jarrod Hill received 135,500 DARs on 4 November 2021 as compensation for incentives forgone on leaving his previous employer. The value of these DARs was $4.38 per right. Mr Hill also received 221,300 EPRs on 4 November 2021.

(5) Opening balances on EPRs for Neil Morgan and Amanda Whiting have been restated to reflect EPRs that lapsed in August 2020 prior to them becoming Executive KMP. For Neil Morgan, the opening balance reported in the 2021 report was 336,358 but should have been 325,588. For Amanda Whiting the opening balance was 65,048 but should have been 63,027.

(6) Tim Plant received 308,800 DARs on 9 June 2022 as compensation for incentives forgone on leaving his previous employer. DARs per tranche were 123,211, 108,697 and 76,892 at values of $4.26, $4.08 and $3.90 respectively. Mr Plant also received 209,000 EPRs on 9 June 2022.

(7) The rights on issue at 30 June for former KMP represent the rights held at the date each ceased to hold a KMP role. Total rights held at 30 June reflects retained unvested LTI and deferred STI awards that will continue to vest according to the standard schedule and required Board approvals.

### V. LTI awards outstanding during the year ended 30 June 2022

Details of outstanding LTI awards made to Executives in the year ended 30 June 2022 are shown in the table below.

| AWARD(1) | MEASURE | GRANT DATE | BASE DATE | TEST DATE | PERFORMANCE HURDLE ACHIEVEMENT(2) | LAST EXERCISE DATE |
|---|---|---|---|---|---|---|
| FY22 | TSR | 09/06/2022 | 01/07/2021 | 30/06/2025 | N/A | 09/06/2029 |
| FY22 | ROE | 09/06/2022 | 01/07/2021 | 30/06/2025 | N/A | 09/06/2029 |
| FY22 | TSR | 04/11/2021 | 01/07/2021 | 30/06/2025 | N/A | 04/11/2028 |
| FY22 | ROE | 04/11/2021 | 01/07/2021 | 30/06/2025 | N/A | 04/11/2028 |
| FY21 | TSR | 20/05/2021 | 01/07/2020 | 30/06/2024 | N/A | 20/05/2028 |
| FY21 | ROE | 20/05/2021 | 01/07/2020 | 30/06/2024 | N/A | 20/05/2028 |
| FY21 | TSR | 05/11/2020 | 01/07/2020 | 30/06/2024 | N/A | 05/11/2027 |
| FY21 | ROE | 05/11/2020 | 01/07/2020 | 30/06/2024 | N/A | 05/11/2027 |
| FY20 | TSR | 17/04/2020 | 01/07/2019 | 30/06/2023 | N/A | 17/04/2027 |
| FY20 | ROE | 17/04/2020 | 01/07/2019 | 30/06/2023 | N/A | 17/04/2027 |
| FY20 | TSR | 12/11/2019 | 01/07/2019 | 30/06/2023 | N/A | 12/11/2026 |
| FY20 | ROE | 12/11/2019 | 01/07/2019 | 30/06/2023 | N/A | 12/11/2026 |
| FY19 | TSR | 29/03/2019 | 01/07/2018 | 30/06/2022 | 0% | 29/03/2026 |
| FY19 | ROE | 29/03/2019 | 01/07/2018 | 30/06/2022 | 0% | 29/03/2026 |
| FY19 | TSR | 05/11/2018 | 01/07/2018 | 30/06/2022 | 0% | 05/11/2025 |
| FY19 | ROE | 05/11/2018 | 01/07/2018 | 30/06/2022 | 0% | 05/11/2025 |

(1) Terms and conditions for LTI plans from FY18 to FY22 relating to relative TSR and cash ROE are the same apart from the change to the vesting range for the ROE tranches. For ROE tranches granted prior to FY20, vesting commenced when ROE was 1.2 times WACC, with maximum vesting when ROE was 1.6 times WACC or greater. For tranches from FY20 (inclusive), vesting commences when ROE is 1.4 times WACC with maximum vesting when ROE is 1.9 times WACC or greater.

(2) The performance hurdles for the FY19 TSR and ROE LTI tranches were not achieved. Accordingly, 100% of the FY19 LTI rights will lapse.

### VI. 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 table below discloses the relevant interests of each KMP and their related parties in ordinary shares of the Company.

| | 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(2) | SHARES HELD NOMINALLY AT 30 JUNE(3) |
|---|---|---|---|---|---|---|---|
| | Number | Number | Number | Number | Number | Number | Number |
| **2022** | | | | | | | |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | |
| Tom Pockett | 38,417 | - | - | - | 66,545 | 104,962 | - |
| Simon Allen | 20,000 | - | - | - | - | 20,000 | 20,000 |
| David Armstrong(4) | - | - | - | - | 45,650 | 45,650 | - |
| Sheila McGregor | 33,041 | - | - | - | - | 33,041 | 27,004 |
| Jon Nicholson | 33,761 | - | - | - | - | 33,761 | 23,584 |
| Helen Nugent | 38,167 | - | - | - | - | 38,167 | 38,167 |
| Scott Pickering(4) | - | - | - | - | 20,769 | 20,769 | 20,769 |
| George Sartorel(4) | - | - | - | - | 10,000 | 10,000 | 10,000 |
| George Savvides | 34,273 | - | - | - | 12,644 | 46,917 | 46,917 |
| Michelle Tredenick | 33,267 | - | - | 4,548 | - | 37,815 | 31,778 |
| **FORMER NON-EXECUTIVE DIRECTORS** | | | | | | | |
| Elizabeth Bryan(5) | 104,124 | - | - | - | - | 104,124 | 104,124 |
| Duncan Boyle(5) | 31,894 | - | - | - | - | 31,894 | 31,894 |
| **EXECUTIVE KMP** | | | | | | | |
| Nick Hawkins | 322,534 | 30,600 | - | - | - | 353,134 | - |
| Julie Batch | 320,821 | 17,150 | - | - | - | 337,971 | - |
| Jarrod Hill(4) | - | - | - | - | - | - | - |
| Peter Horton | 46,376 | 39,800 | - | - | 94 | 86,270 | - |
| Michelle McPherson | 500 | 60,347 | - | - | 188 | 61,035 | 216 |
| Neil Morgan | 143,664 | 18,200 | - | - | 229 | 162,093 | 595 |
| Tim Plant(4) | - | - | - | - | - | - | - |
| Christine Stasi | 45 | 51,000 | - | - | 214 | 51,259 | 259 |
| Peter Taylor(4) | - | - | - | - | - | - | - |
| Amanda Whiting | 47 | 29,290 | 9,203 | - | - | 38,540 | 47 |
| **FORMER EXECUTIVE KMP** | | | | | | | |
| David Watts(5) | 11,626 | 11,200 | - | - | 222 | 23,048 | 648 |

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

(2) 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 that limit the ability of an IAG Director to trade in the securities of the Group where they are in a position to be aware of, or are aware of, price sensitive information.

(3) Shares nominally held are included in the column headed total shares held at 30 June and include those held directly, indirectly or beneficially by the KMP's related parties, including domestic partners and dependants or entities controlled, jointly controlled or significantly influenced by the KMP or their related parties.

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

(5) 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 (2021: nil).

#### III. Related Party Transactions

No KMP or their related parties had any "non-arm’s length” transactions with IAG.

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 12th day of August 2022 in accordance with a resolution of the Directors.

**Nick Hawkins**
Director

# LEAD AUDITOR'S INDEPENDENCE DECLARATION

**UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001***

KPMG

**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 2022 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**

**Brendan Twining**
Partner

Sydney
12 August 2022

# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 30 JUNE 2022**

| | NOTE | 2022 $m | 2021 $m |
|---|---|---|---|
| Gross earned premium | 2.1 | **12,972** | 12,288 |
| Outwards reinsurance premium expense | | **(5,063)** | (4,868) |
| Net earned premium (i) | | **7,909** | 7,420 |
| Claims expense | | **(9,079)** | (10,762) |
| Reinsurance and other recoveries revenue | 2.1 | **4,064** | 4,805 |
| Net claims expense (ii) | 2.2 | **(5,015)** | (5,957) |
| Commission expense | | **(1,020)** | (1,007) |
| Underwriting expense | | **(2,024)** | (2,152) |
| Reinsurance commission revenue | 2.1 | **1,162** | 1,125 |
| Net underwriting expense (iii) | | **(1,882)** | (2,034) |
| Underwriting profit/(loss) (i) + (ii) + (iii) | | **1,012** | (571) |
| Investment (loss)/income on assets backing insurance liabilities | 2.3 | **(226)** | 158 |
| Investment expenses on assets backing insurance liabilities | | **(12)** | (19) |
| Insurance profit/(loss) | | **774** | (432) |
| Investment (loss)/income on shareholders' funds | 2.3 | **(97)** | 319 |
| Fee and other income | | **132** | 165 |
| Share of net profit of associates | | **17** | 35 |
| Finance costs | | **(93)** | (89) |
| Fee-based, corporate and other expenses | | **(169)** | (386) |
| Net loss attributable to non-controlling interests in unitholders' funds | | **-** | (1) |
| Profit/(loss) before income tax from continuing operations | | **564** | (389) |
| Income tax (expense)/benefit | 5.2 | **(140)** | 125 |
| Profit/(loss) after income tax from continuing operations | | **424** | (264) |
| Profit/(loss) after income tax from discontinued operations | 6.1 | **-** | (13) |
| Profit/(loss) for the year | | **424** | (277) |
| **OTHER COMPREHENSIVE INCOME/(EXPENSE)** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Net movement in foreign currency translation reserve, net of tax | | **(17)** | (11) |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurements of defined benefit plans, net of tax | | **38** | 3 |
| Other comprehensive income/(loss) from continuing operations, net of tax | | **21** | (8) |
| Other comprehensive income/(loss) from discontinued operations, net of tax | 6.1 | **-** | - |
| Total comprehensive income/(loss) for the year, net of tax | | **445** | (285) |
| **PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO** | | | |
| Shareholders of the Parent – continuing operations | | **347** | (414) |
| Shareholders of the Parent – discontinued operations | 6.1 | **-** | (13) |
| Non-controlling interests – continuing operations | | **77** | 150 |
| Profit/(loss) for the year | | **424** | (277) |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO** | | | |
| Shareholders of the Parent – continuing operations | | **368** | (422) |
| Shareholders of the Parent – discontinued operations | 6.1 | **-** | (13) |
| Non-controlling interests – continuing operations | | **77** | 150 |
| Total comprehensive income/(loss) for the year, net of tax | | **445** | (285) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

| | NOTE | 2022 cents | 2021 cents |
|---|---|---|---|
| **EARNINGS PER SHARE – CONTINUING AND DISCONTINUED OPERATIONS** | | | |
| Basic earnings per ordinary share | 4.3 | **14.09** | (17.82) |
| Diluted earnings per ordinary share | 4.3 | **13.33** | (17.82) |
| **EARNINGS PER SHARE – CONTINUING OPERATIONS** | | | |
| Basic earnings per ordinary share | 4.3 | **14.09** | (17.28) |
| Diluted earnings per ordinary share | 4.3 | **13.33** | (17.28) |

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 2022

| | NOTE | 2022 $m | 2021 $m |
|---|---|---|---|
| **ASSETS** | | | |
| Cash held for operational purposes | 8.1 | **350** | 326 |
| Investments | 2.3 | **11,813** | 12,417 |
| Trade and other receivables | 2.6 | **4,580** | 4,354 |
| Current tax assets | | **31** | - |
| Assets held for sale | 6.2 | **342** | 348 |
| Reinsurance and other recoveries on outstanding claims | 2.2 | **7,886** | 7,272 |
| Deferred insurance expenses | 2.5 | **3,834** | 3,601 |
| Deferred levies and charges | | **112** | 137 |
| Deferred tax assets | 5.2 | **955** | 977 |
| Right-of-use assets | 5.4 | **412** | 472 |
| Property and equipment | | **180** | 138 |
| Other assets | | **146** | 157 |
| Investment in joint venture and associates | | **31** | 30 |
| Goodwill and intangible assets | 5.1 | **3,411** | 3,220 |
| Total assets | | **34,083** | 33,449 |
| **LIABILITIES** | | | |
| Trade and other payables | 2.7 | **3,013** | 2,975 |
| Current tax liabilities | | **13** | 124 |
| Liabilities held for sale | 6.2 | **-** | 19 |
| Unearned premium liability | 2.4 | **6,831** | 6,527 |
| Outstanding claims liability | 2.2 | **13,964** | 13,312 |
| Lease liabilities | 5.4 | **529** | 585 |
| Provisions | 5.3 | **671** | 866 |
| Other liabilities | | **507** | 498 |
| Interest-bearing liabilities | 4.1 | **2,055** | 1,987 |
| Total liabilities | | **27,583** | 26,893 |
| Net assets | | **6,500** | 6,556 |
| **EQUITY** | | | |
| Share capital | 4.2 | **7,386** | 7,386 |
| Treasury shares held in trust | | **(24)** | (33) |
| Reserves | | **3** | 13 |
| Retained earnings | | **(1,202)** | (1,120) |
| Parent interest | | **6,163** | 6,246 |
| Non-controlling interests | | **337** | 310 |
| Total equity | | **6,500** | 6,556 |

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 2022**

| | 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 |
|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | |
| Balance at the beginning of the financial year | **7,386** | **(33)** | **(10)** | **23** | **(1,120)** | **310** | **6,556** |
| Profit/(loss) for the year | **-** | **-** | **-** | **-** | **347** | **77** | **424** |
| Other comprehensive income/(expense) | **-** | **-** | **(17)** | **-** | **38** | **-** | **21** |
| Total comprehensive income/(loss) for the year | **-** | **-** | **(17)** | **-** | **385** | **77** | **445** |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Share-based remuneration | **-** | **9** | **-** | **7** | **-** | **-** | **16** |
| Dividends determined and paid | **-** | **-** | **-** | **-** | **(468)** | **(52)** | **(520)** |
| Dividends received on treasury shares held in trust | **-** | **-** | **-** | **-** | **1** | **-** | **1** |
| Additional investment in subsidiaries | **-** | **-** | **-** | **-** | **-** | **2** | **2** |
| Balance at the end of the financial year | **7,386** | **(24)** | **(27)** | **30** | **(1,202)** | **337** | **6,500** |
| 2021 | | | | | | | |
| Balance at the beginning of the financial year | 6,617 | (49) | 1 | 29 | (521) | 277 | 6,354 |
| (Loss)/profit for the year | - | - | - | - | (427) | 150 | (277) |
| Other comprehensive income/(expense) | - | - | (11) | - | 3 | - | (8) |
| Total comprehensive income/(loss) for the year | - | - | (11) | - | (424) | 150 | (285) |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Shares issued under institutional placement, net of transaction costs | 643 | - | - | - | - | - | 643 |
| Shares issued under Share Purchase Plan, net of transaction costs | 126 | - | - | - | - | - | 126 |
| Share-based remuneration | - | 16 | - | (6) | (2) | - | 8 |
| Dividends determined and paid | - | - | - | - | (173) | (119) | (292) |
| Additional investment in subsidiaries | - | - | - | - | - | 2 | 2 |
| Balance at the end of the financial year | 7,386 | (33) | (10) | 23 | (1,120) | 310 | 6,556 |

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 2022

| | NOTE | 2022 $m | 2021 $m |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Premium received | | **13,112** | 12,474 |
| Reinsurance and other recoveries received | | **3,441** | 3,778 |
| Claims costs paid | | **(8,488)** | (8,081) |
| Outwards reinsurance premium expense paid | | **(5,083)** | (4,869) |
| Dividends, interest and trust distributions received | | **266** | 229 |
| Finance costs paid | | **(90)** | (84) |
| Income taxes (paid)/refunded | | **(270)** | 31 |
| Other operating receipts | | **2,182** | 2,036 |
| Other operating payments | | **(4,171)** | (3,904) |
| Net cash flows from operating activities | 8.1 | **899** | 1,610 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net cash flows on (acquisition)/disposal of subsidiaries and associates | | **(33)** | (9) |
| Net cash flows from (purchase)/sale of investments and plant and equipment | | **(1,426)** | (2,409) |
| Net cash flows from investing activities | | **(1,459)** | (2,418) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares, net of transaction costs | | **-** | 764 |
| Proceeds from borrowings, net of transaction costs | | **226** | 457 |
| Repayment of borrowings | | **(154)** | - |
| Principal element of lease payments | | **(79)** | (82) |
| Net cash flow from issue and redemption of trust units | | **-** | (331) |
| Dividends paid to shareholders of the Parent | | **(468)** | (173) |
| Dividends paid to non-controlling interests | | **(52)** | (119) |
| Dividends received on treasury shares | | **1** | - |
| Net cash flows from financing activities | | **(526)** | 516 |
| Net movement in cash held | | **(1,086)** | (292) |
| Effects of exchange rate changes on balances of cash held in foreign currencies | | **(5)** | (1) |
| Cash and cash equivalents at the beginning of the financial year | | **2,029** | 2,322 |
| Cash and cash equivalents at the end of the financial year | 8.1 | **938** | 2,029 |

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

# NOTES TO THE FINANCIAL STATEMENTS

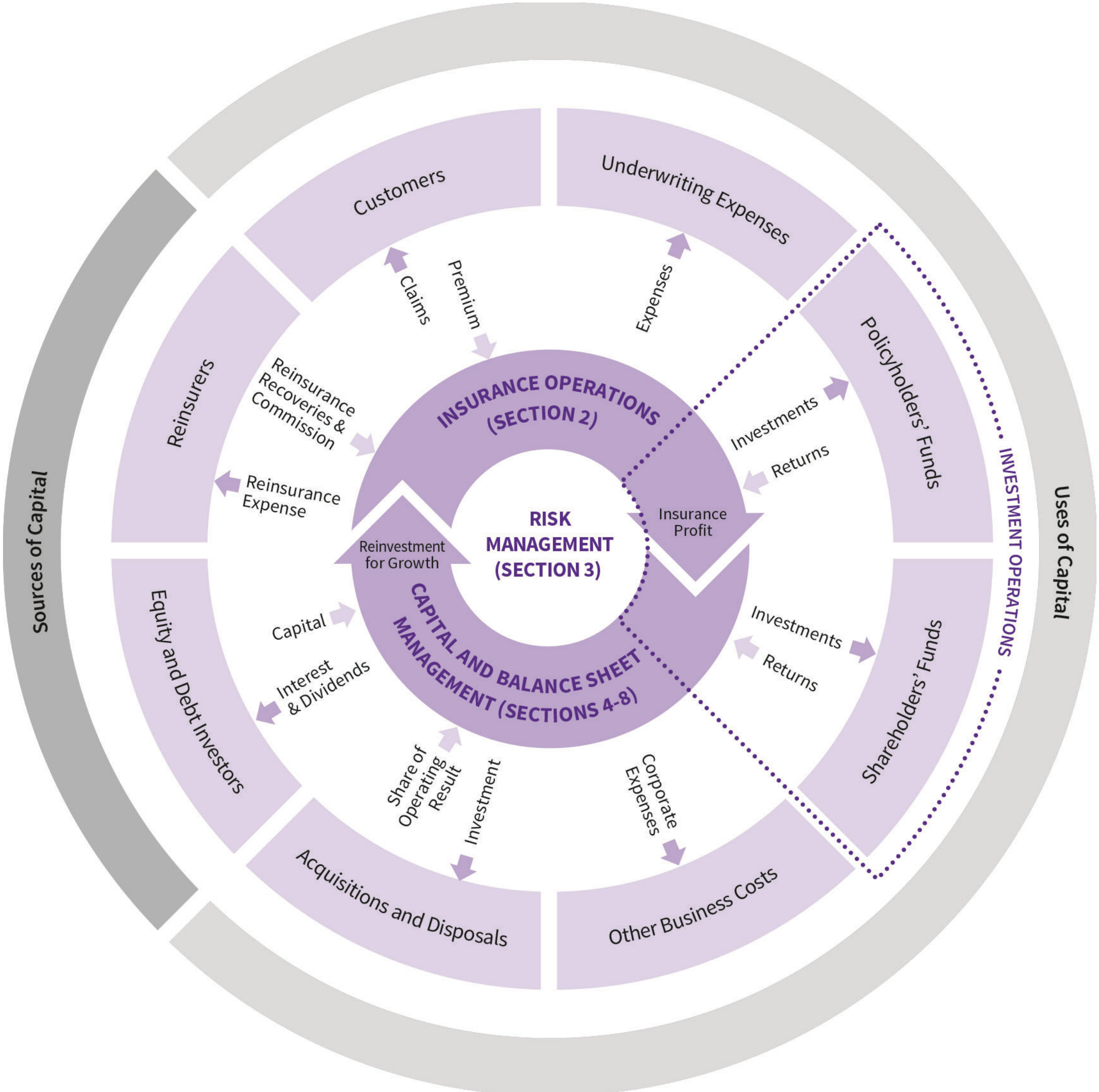
## 1. OVERVIEW

### 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 significant 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 2022.

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 12 August 2022 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. On 10 July 2020, the IASB published the final *IFRS 17* standard (*IFRS 17 Insurance Contracts* – adopted as *AASB 17 Insurance Contracts* in an Australian context) that does include such criteria, with an effective date for IAG of 1 July 2023. Until this standard takes effect, the financial reports of insurers in different jurisdictions 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 2022. 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 non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated balance sheet and statement of changes in equity. The Group recognises non-controlling interests in an acquired entity at the non-controlling interest's proportionate share of the acquired entity's net assets. 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 investment income (refer to Note 2.3 for further details);
- reclassification of trade and other payables (refer to Note 2.7 for further details); and
- reclassification of remuneration of auditors (refer to Note 8.3 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 no new Australian Accounting Standards applicable for the current reporting year.

### 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 refunds provision | Note 5.3 |

### III. Coronavirus (COVID-19) pandemic and other economic factors

As the economy emerges from the COVID-19 pandemic, together with the occurrence of other global events, there are various factors that are impacting the operating environment. This includes effects that IAG is experiencing such as increasing interest rates and the emergence of higher inflation, which is increasing 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 2022 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, and fair value measurement of investments.

The impact of the COVID-19 pandemic together with the effects of other economic factors, 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 continues to experience impacts as a result of COVID-19 and other economic factors. 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 impacts on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year.

During the current year, the motor portfolio has continued to be impacted through favourable claim frequency as a result of a sequence of mobility restrictions introduced to slow the spread of COVID-19, particularly the extended lockdowns in Victoria and New South Wales over July to October 2021. Offsetting this, IAG observed elevated inflationary pressure on claims costs in motor and home portfolios due to supply chain and labour market disruption, along with deterioration in long-tail portfolios, particularly in commercial liability reflecting elevated average claim size.

The total pre-tax provision for business interruption claims associated with COVID-19 was $975 million at 30 June 2022 (2021: $1,236 million). The reduction includes a $200 million release and a $61 million reduction based on the increase in the yield curve. Following the Full Court of the Federal Court's appeal judgment delivered on 21 February 2022 (noted below), the following factors have been considered in determining the appropriate level of release from the business interruption provision at 30 June 2022:

- the number and nature of the claims received since the second test case; and
- analysis of the scope of the judgment and its application.

Extensive scenario testing of the adequacy of the provision has been undertaken during the 2022 financial year. A substantial part of the provision continues to include a risk margin reflecting the uncertainty of the potential legal outcomes and subsequent claims that may arise.

On 18 November 2020, the Supreme Court of New South Wales Court of Appeal (NSWCA) delivered its judgment on the first business interruption insurance test case, which determined pandemic exclusions that refer to the Quarantine Act and subsequent amendments only, rather than the Biosecurity Act, are not effective to exclude cover for losses associated with COVID-19. On 25 June 2021, the High Court of Australia (HCA) dismissed the insurers' application for special leave to appeal the decision of the NSWCA.

During the current financial year, a number of developments have emerged. IAG's exposure in respect of policy exclusions which reference the Quarantine Act without specific reference to the Biosecurity Act is limited to historical policies only as all new and renewing policies now include the Biosecurity Act or a broader exclusion.

Even while the first business interruption insurance test case, noted above, was in progress, preparations were underway for a second business interruption insurance test case. The second business interruption insurance test case was heard by the Federal Court of Australia in September 2021. On 8 October 2021, the Federal Court of Australia delivered its judgment in the second test case and found in favour of insurers on a significant number of policy wording questions and for policyholders on other questions.

In November 2021, the Full Court of the Federal Court of Australia heard appeals in 5 of the 10 cases in the second test case (including the 2 IAG cases) and the Full Court delivered its appeal judgment on 21 February 2022. The judgment was mostly favourable to insurers and upheld many aspects of the Federal Court of Australia's original decision. The judgment did reverse two elements of the judgment in one of the IAG cases relating to the treatment of Jobkeeper payments and the calculation of interest.

Special leave applications have been filed in the HCA in 3 of the 5 test cases that were appealed to the Full Court of the Federal Court of Australia (including the 2 IAG cases). The HCA has now informed the parties that it will conduct an oral hearing to determine the special leave applications in each of these proceedings and that the oral hearing will not be listed before October 2022 (although the precise date is yet to be confirmed).

IAG is defending a representative class action that has been filed in the Federal Court of Australia relating to policyholders with business interruption policies. The representative class action has been adjourned pending conclusion of the test cases.

- Goodwill and intangible assets impairment

The assumptions underpinning the value-in-use calculations used to evaluate the supportability of goodwill and intangible assets reflect reasonable estimates of the impact of COVID-19 and other economic factors 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 2022, 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.

- 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 and other economic factors.

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.

## NOTE 1.3 SEGMENT REPORTING

IAG has identified its operating segments based on the internal reports that are reviewed and used by the Group Chief Executive Officer (being the chief operating decision maker) in assessing performance and in 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 2022 comprising the following business divisions:

#### I. Direct Insurance Australia

This segment predominantly provides personal lines, and some commercial lines, general insurance products sold directly to customers primarily under the NRMA Insurance, SGIO and SGIC brands, the RACV brand in Victoria (via a distribution and underwriting relationship with RACV), as well as the CGU and ROLLiN' brands.

#### II. Intermediated Insurance Australia

This segment predominantly provides commercial lines, and some personal lines, general insurance products sold to customers through intermediaries including brokers, authorised representatives and distribution partners primarily under the CGU and WFI brands, as well as the Coles Insurance brand via a distribution agreement with Coles.

**III. 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.

**IV. 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**

| | DIRECT INSURANCE AUSTRALIA $m | INTERMEDIATED INSURANCE AUSTRALIA $m | NEW ZEALAND $m | CORPORATE AND OTHER $m | TOTAL $m |
|---|---|---|---|---|---|
| **2022** | | | | | |
| **I. Financial performance** | | | | | |
| Total external revenue(1) | **8,464** | **6,034** | **3,787** | **62** | **18,347** |
| Underwriting profit | **533** | **255** | **224** | **-** | **1,012** |
| Net investment loss on assets backing insurance liabilities | **(84)** | **(150)** | **(4)** | **-** | **(238)** |
| Insurance profit | **449** | **105** | **220** | **-** | **774** |
| Net investment loss on shareholders' funds | **-** | **-** | **-** | **(105)** | **(105)** |
| Share of net profit of associates | **(7)** | **-** | **-** | **24** | **17** |
| Finance costs | **-** | **-** | **-** | **(93)** | **(93)** |
| Other net operating result | **(13)** | **1** | **-** | **(17)** | **(29)** |
| Total segment result from continuing operations | **429** | **106** | **220** | **(191)** | **564** |
| Income tax expense | | | | | **(140)** |
| Profit for the year from continuing operations | | | | | **424** |
| **II. Other segment information** | | | | | |
| Capital expenditure(2) | **-** | **-** | **-** | **330** | **330** |
| Depreciation, amortisation and impairment expense | **68** | **49** | **21** | **1** | **139** |
| 2021 | | | | | |
| **I. Financial performance** | | | | | |
| Total external revenue(1) | 8,325 | 6,588 | 3,603 | 379 | 18,895 |
| Underwriting profit/(loss) | 580 | (1,442) | 294 | (3) | (571) |
| Net investment income/(loss) on assets backing insurance liabilities | 84 | 50 | 8 | (3) | 139 |
| Insurance profit/(loss) | 664 | (1,392) | 302 | (6) | (432) |
| Net investment income on shareholders' funds | - | - | - | 306 | 306 |
| Share of net profit of associates | (3) | - | - | 38 | 35 |
| Finance costs | - | - | - | (89) | (89) |
| Other net operating result | (15) | 4 | - | (198) | (209) |
| Total segment result from continuing operations | 646 | (1,388) | 302 | 51 | (389) |
| Income tax benefit | | | | | 125 |
| Loss for the year from continuing operations | | | | | (264) |
| **II. Other segment information** | | | | | |
| Capital expenditure(2) | - | - | - | 206 | 206 |
| Depreciation, amortisation and impairment expense | 68 | 67 | 30 | 94 | 259 |

(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 financial 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

| | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| **A. COMPOSITION** | | |
| Gross written premium | **13,317** | 12,545 |
| Movement in unearned premium liability | **(345)** | (257) |
| Gross earned premium | **12,972** | 12,288 |
| Reinsurance and other recoveries revenue | **4,064** | 4,805 |
| Reinsurance commission revenue | **1,162** | 1,125 |
| Total general insurance revenue | **18,198** | 18,218 |

**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**

| | | **2022** | | | 2021 | |
|---|---|---|---|---|---|---|
| | **CURRENT YEAR** | **PRIOR YEARS** | **TOTAL** | CURRENT YEAR | PRIOR YEARS | TOTAL |
| | **$m** | **$m** | **$m** | $m | $m | $m |
| Gross claims – undiscounted | **10,128** | **(309)** | **9,819** | 9,193 | 1,671 | 10,864 |
| Discount | **(191)** | **(549)** | **(740)** | (34) | (68) | (102) |
| Gross claims – discounted | **9,937** | **(858)** | **9,079** | 9,159 | 1,603 | 10,762 |
| Reinsurance and other recoveries – undiscounted | **(4,580)** | **57** | **(4,523)** | (3,811) | (1,072) | (4,883) |
| Discount | **100** | **359** | **459** | 17 | 61 | 78 |
| Reinsurance and other recoveries – discounted | **(4,480)** | **416** | **(4,064)** | (3,794) | (1,011) | (4,805) |
| Net claims expense | **5,457** | **(442)** | **5,015** | 5,365 | 592 | 5,957 |

## B. NET OUTSTANDING CLAIMS LIABILITY

### I. Composition of net outstanding claims liability

| | 2022 $m | 2021 $m |
|---|---|---|
| Gross central estimate – discounted | **10,948** | 10,227 |
| Reinsurance and other recoveries – discounted | **(6,317)** | (5,623) |
| Net central estimate – discounted | **4,631** | 4,604 |
| Claims handling costs – discounted | **420** | 404 |
| Risk margin | **1,027** | 1,032 |
| Net outstanding claims liability – discounted | **6,078** | 6,040 |

The gross outstanding claims liability includes $7,082 million (2021: $7,123 million) which is expected to be settled more than 12 months from the reporting date.

The carrying value of reinsurance and other recoveries includes $3,963 million (2021: $3,943 million) which is expected to be settled more than 12 months from the reporting date.

a. BUSINESS INTERRUPTION

The total pre-tax provision for business interruption claims associated with COVID-19 was $975 million at 30 June 2022 (2021: $1,236 million). The reduction includes a $200 million release and a $61 million reduction based on the increase in the yield curve. Following the Full Court of the Federal Court's appeal judgment delivered on 21 February 2022 (noted below), the following factors have been considered in determining the appropriate level of release from the business interruption provision at 30 June 2022:

- the number and nature of the claims received since the second test case; and
- analysis of the scope of the judgment and its application.

Extensive scenario testing of the adequacy of the provision has been undertaken during the 2022 financial year. A substantial part of the provision continues to include a risk margin reflecting the uncertainty of the potential legal outcomes and subsequent claims that may arise.

On 18 November 2020, the Supreme Court of New South Wales Court of Appeal (NSWCA) delivered its judgment on the first business interruption insurance test case, which determined pandemic exclusions that refer to the Quarantine Act and subsequent amendments only, rather than the Biosecurity Act, are not effective to exclude cover for losses associated with COVID-19. On 25 June 2021, the High Court of Australia (HCA) dismissed the insurers' application for special leave to appeal the decision of the NSWCA.

During the current financial year, a number of developments have emerged. IAG's exposure in respect of policy exclusions which reference the Quarantine Act without specific reference to the Biosecurity Act is limited to historical policies only as all new and renewing policies now include the Biosecurity Act or a broader exclusion.

Even while the first business interruption insurance test case, noted above, was in progress, preparations were underway for a second business interruption insurance test case. The second business interruption insurance test case was heard by the Federal Court of Australia in September 2021. On 8 October 2021, the Federal Court of Australia delivered its judgment in the second test case and found in favour of insurers on a significant number of policy wording questions and for policyholders on other questions.

In November 2021, the Full Court of the Federal Court of Australia heard appeals in 5 of the 10 cases in the second test case (including the 2 IAG cases) and the Full Court delivered its appeal judgment on 21 February 2022. The judgment was mostly favourable to insurers and upheld many aspects of the Federal Court of Australia's original decision. The judgment did reverse two elements of the judgment in one of the IAG cases relating to the treatment of Jobkeeper payments and the calculation of interest.

Special leave applications have been filed in the HCA in 3 of the 5 test cases that were appealed to the Full Court of the Federal Court of Australia (including the 2 IAG cases). The HCA has now informed the parties that it will conduct an oral hearing to determine the special leave applications in each of these proceedings and that the oral hearing will not be listed before October 2022 (although the precise date is yet to be confirmed).

IAG is defending a representative class action that has been filed in the Federal Court of Australia relating to policyholders with business interruption policies. The representative class action has been adjourned pending conclusion of the test cases.

The impact on the business interruption element of the net outstanding claims liabilities (net of reinsurance recoveries) before income tax to changes in key actuarial assumptions is summarised below:

| ASSUMPTION | MOVEMENT IN ASSUMPTION | **2022** Increase/ (decrease) $m | 2021 Increase/ (decrease) $m |
|---|---|---|---|
| Utilisation | +15% | **75** | - |
| | -15% | **(164)** | - |
| Causation | +15% | **179** | - |
| | -15% | **(188)** | - |
| Turnover assumption | +15% | **116** | - |
| | -15% | **(110)** | - |
| Turnover assumption | +5% | **-** | 267 |
| | -5% | **-** | (122) |
| Number of policies impacted | +5% | **-** | 197 |
| | -5% | **-** | (221) |
| Recovery period | -50% | **-** | (287) |

b. TRADE CREDIT INSURANCE

As previously advised, IAG maintains that, through the protections it has put in place, it has no net insurance exposure to trade credit policies sold through BCC Trade Credit Pty Ltd (BCC).

The complex issues around trade credit claims continue to be managed and defended by Insurance Australia Limited (IAL), including the litigation arising out of the purported underwriting of Greensill policies by BCC. Claims and litigation by the administrators of Greensill or other claimants seeking confirmation of policy coverage and/or validity of claims was and is anticipated and IAG will defend these litigated claims. During the current financial year, four separate proceedings relating to claims in respect of policies relating to Greensill entities were commenced against IAL in the Federal Court of Australia. The commencement of litigated claims was an expected risk and IAG anticipates that it will take a number of years to bring these matters to resolution.

BCC is an underwriting agency that was authorised to underwrite trade credit insurance on IAG's behalf, in accordance with specific underwriting guidelines, through IAL, one of IAG's two licensed insurance subsidiaries in Australia. Trade credit insurance is designed to protect insured businesses who provide credit terms to their customers. The policies are designed to indemnify for losses arising from a failure to pay genuine debts owed by customers by covering an agreed percentage of defaults on the payment of the business' accounts receivable.

IAL's 50% interest in BCC was sold to Tokio Marine & Nichido Fire Insurance Co. Ltd (Tokio Marine) with effect from 9 April 2019. As part of the transaction arrangements put in place to ensure IAG had no net insurance exposure to trade credit policies, BCC continued to underwrite risks on behalf of IAL to 30 June 2019 with Tokio Marine retaining the ultimate liability for these polices, and earlier written policies, net of reinsurance. In addition to reinsurance in place in respect of these policies, IAG entered into agreements with Tokio Marine for it to hold any remaining exposure to trade credit insurance written by BCC on behalf of IAL before 30 June 2019 and is the licensee responsible for BCC's conduct from 1 July 2019.

IAL ceased underwriting trade credit on 30 June 2019. The IAL trade credit portfolio is in run off with IAL managing existing and future claims. The existing claims include both claims relating to Greensill entities and claims related to the remainder of the BCC trade credit portfolio. IAG has revised the outstanding claims liability to $477 million at 30 June 2022 (2021: $437 million) mainly due to recognition of claims handling expenses, with the majority relating to expected legal costs associated with claims notified, along with an assessment of existing claims following the receipt of additional claim information and an assessment of a number of new claims lodged during the year relating to the BCC portfolio. This has been determined in accordance with IAG's usual claims reserving practices, which takes into account an assessment of the validity of claims. IAG has also recognised $477 million (2021: $437 million) of related reinsurance recoveries and indemnities in respect of trade credit related claims although a reinsurer may challenge its obligations with respect to any claim exposures.

**II. Reconciliation of movements in net discounted outstanding claims liability**

| | **2022** **$m** | 2021 $m |
|---|---|---|
| Net outstanding claims liability at the beginning of the financial year | **6,040** | 4,515 |
| Movement in the prior year central estimate | **(13)** | 673 |
| Current year claims incurred, net of reinsurance and other recoveries | **5,228** | 4,999 |
| Claims paid, net of reinsurance and other recoveries received | **(4,955)** | (4,437) |
| Movement in discounting | **(207)** | (3) |
| Movement in risk margin | **(3)** | 296 |
| Net foreign currency movements | **(12)** | (3) |
| Net outstanding claims liability at the end of the financial year | **6,078** | 6,040 |
| Reinsurance and other recoveries on outstanding claims liability | **7,886** | 7,272 |
| Gross outstanding claims liability at the end of the financial year | **13,964** | 13,312 |

### 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.

| | ACCIDENT YEAR | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 and prior | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
| | $m | $m | $m | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| NET ULTIMATE CLAIM PAYMENTS | | | | | | | | | | | | |
| Development | | | | | | | | | | | | |
| At end of accident year | | 5,156 | 5,590 | 6,283 | 4,956 | 5,255 | 4,485 | 3,947 | 4,215 | 4,315 | 4,464 | |
| One year later | | 5,080 | 5,594 | 6,210 | 4,908 | 5,200 | 4,400 | 4,009 | 4,757 | 4,297 | | |
| Two years later | | 5,000 | 5,507 | 6,146 | 4,850 | 5,166 | 4,390 | 4,031 | 4,657 | | | |
| Three years later | | 4,920 | 5,366 | 6,030 | 4,790 | 5,174 | 4,406 | 4,093 | | | | |
| Four years later | | 4,840 | 5,297 | 6,027 | 4,796 | 5,210 | 4,421 | | | | | |
| Five years later | | 4,821 | 5,279 | 6,015 | 4,806 | 5,237 | | | | | | |
| Six years later | | 4,823 | 5,251 | 6,018 | 4,805 | | | | | | | |
| Seven years later | | 4,805 | 5,240 | 6,033 | | | | | | | | |
| Eight years later | | 4,802 | 5,245 | | | | | | | | | |
| Nine years later | | 4,799 | | | | | | | | | | |
| Current estimate of net ultimate claim payments | | 4,799 | 5,245 | 6,033 | 4,805 | 5,237 | 4,421 | 4,093 | 4,657 | 4,297 | 4,464 | |
| Cumulative payments made to date | | 4,766 | 5,177 | 5,930 | 4,706 | 5,071 | 4,201 | 3,772 | 3,767 | 3,400 | 2,586 | |
| Net undiscounted outstanding claims liability | 208 | 33 | 68 | 103 | 99 | 166 | 220 | 321 | 890 | 897 | 1,878 | 4,883 |
| Discount to present value | (14) | (3) | (5) | (8) | (8) | (11) | (15) | (18) | (49) | (53) | (68) | (252) |
| Net discounted outstanding claims liability | 194 | 30 | 63 | 95 | 91 | 155 | 205 | 303 | 841 | 844 | 1,810 | 4,631 |
| Reconciliation | | | | | | | | | | | | |
| Claims handling costs | | | | | | | | | | | | 420 |
| Risk margin | | | | | | | | | | | | 1,027 |
| Net outstanding claims liability | | | | | | | | | | | | 6,078 |

## 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 an underwriting 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:

| | **2022** | 2021 |
|---|---|---|
| | **%** | % |
| The percentage risk margin applied to the net outstanding claims liability | **20** | 21 |
| The probability of adequacy of the risk margin | **90** | 90 |

### 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.

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 | DIRECT INSURANCE AUSTRALIA | INTERMEDIATED INSURANCE AUSTRALIA | NEW ZEALAND |
|---|---|---|---|
| **2022** | | | |
| Discounted average term to settlement | **1.77 years** | **1.79 years** | **0.76 years** |
| Inflation rate | **0.0% - 5.0%** | **0.0% - 4.5%** | **3.7%** |
| Superimposed inflation rate | **0.0% - 5.0%** | **0.0% - 7.5%** | **0.0%** |
| Discount rate | **1.4% - 4.0%** | **1.4% - 4.0%** | **3.3% - 4.5%** |
| Claims handling costs ratio | **4.2%** | **3.2%** | **4.9%** |
| 2021 | | | |
| Discounted average term to settlement | 1.94 years | 1.83 years | 0.85 year |
| Inflation rate | 0.0-3.5% | 0.0-4.3% | 2.0% |
| Superimposed inflation rate | 0.0-5.0% | 0.0-5.0% | 0.0% |
| Discount rate | 0.0-3.7% | 0.0-4.0% | 0.0-2.5% |
| Claims handling costs ratio | 4.6% | 3.2% | 4.7% |

#### 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 | DIRECT INSURANCE AUSTRALIA | INTERMEDIATED INSURANCE AUSTRALIA | NEW ZEALAND |
|---|---|---|---|---|
| | | $m | $m | $m |
| **2022** | | | | |
| Discounted average term to settlement | **+10%** | **(11)** | **(19)** | **(2)** |
| | **-10%** | **11** | **19** | **2** |
| Inflation rate | **+1%** | **34** | **59** | **4** |
| | **-1%** | **(33)** | **(58)** | **(4)** |
| Discount rate | **+1%** | **(33)** | **(59)** | **(4)** |
| | **-1%** | **35** | **62** | **4** |
| Claims handling costs ratio | **+1%** | **49** | **76** | **8** |
| | **-1%** | **(49)** | **(76)** | **(8)** |
| 2021 | | | | |
| Discounted average term to settlement | +10% | (3) | (3) | - |
| | -10% | 3 | 3 | - |
| Inflation rate | +1% | 36 | 62 | 4 |
| | -1% | (35) | (60) | (4) |
| Discount rate | +1% | (36) | (63) | (4) |
| | -1% | 39 | 66 | 4 |
| Claims handling costs ratio | +1% | 45 | 74 | 8 |
| | -1% | (45) | (74) | (8) |

## NOTE 2.3 INVESTMENTS

| | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| **A. INVESTMENT INCOME** | | |
| Dividend revenue | **20** | 14 |
| Interest revenue | **179** | 148 |
| Trust revenue | **44** | 39 |
| Net fair value (losses)/gains(1) | **(566)** | 276 |
| Total investment (loss)/income | **(323)** | 477 |
| **Represented by** | | |
| Investment (loss)/income on assets backing insurance liabilities | **(226)** | 158 |
| Investment (loss)/income on shareholders' funds | **(97)** | 319 |
| | **(323)** | 477 |
| **B. INVESTMENT COMPOSITION** | | |
| **I. Interest-bearing investments** | | |
| Cash and cash equivalents | **588** | 1,672 |
| Government and semi-government bonds | **2,550** | 1,518 |
| Corporate bonds and notes | **6,093** | 6,527 |
| Subordinated securities | **915** | 945 |
| Other | **354** | 360 |
| | **10,500** | 11,022 |
| **II. Growth investments(2)** | | |
| Equity investments | **1,313** | 1,395 |
| Total investments | **11,813** | 12,417 |

(1) Prior year comparatives have been re-presented due to the reclassification of realised and unrealised (losses)/gains to net fair value (losses)/gains.

(2) 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 and other economic factors, 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 cash and short-term discount securities, 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. The valuation techniques may include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models. 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. The fair value of the directly held unlisted equity is based on a methodology leveraging inputs relating to the latest capital transactions executed by the respective companies. 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 $89 million (2021: $4 million) and sales of $107 million (2021: $17 million) in interest-bearing instruments;
- purchases of $44 million (2021: $77 million) in unlisted equity with $153 million sales in the current financial year (2021: $124 million); 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 |
|---|---|---|---|---|
| **2022** | | | | |
| Interest-bearing investments | **3,160** | **6,986** | **354** | **10,500** |
| Growth investments | **555** | **357** | **401** | **1,313** |
| | **3,715** | **7,343** | **755** | **11,813** |
| 2021 | | | | |
| Interest-bearing investments | 3,833 | 6,829 | 360 | 11,022 |
| Growth investments | 583 | 353 | 459 | 1,395 |
| | 4,416 | 7,182 | 819 | 12,417 |

## NOTE 2.4 UNEARNED PREMIUM LIABILITY

| | 2022 $m | 2021 $m |
|---|---|---|
| **A. RECONCILIATION OF MOVEMENTS** | | |
| Unearned premium liability at the beginning of the financial year | **6,527** | 6,276 |
| Deferral of premiums written during the financial year | **6,827** | 6,488 |
| Earning of premiums written in previous financial years | **(6,482)** | (6,231) |
| Net foreign exchange movements | **(41)** | (6) |
| Unearned premium liability at the end of the financial year | **6,831** | 6,527 |

The carrying value of unearned premium liability includes $39 million (2021: $45 million) which is expected to be earned more than 12 months from the 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 Direct Insurance Australia, Intermediated Insurance Australia and New Zealand.

The LAT at reporting date resulted in a surplus (2021: 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:

| | 2022 $m | 2021 $m |
|---|---|---|
| Net central estimate of present value of expected cash flows on future claims | **2,988** | 2,879 |
| Risk margin of the present value of expected future cash flows | **72** | 69 |
| | **3,060** | 2,948 |
| Risk margin percentage | **2.4%** | 2.4% |
| Probability of adequacy | **60.0%** | 60.0% |

#### 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 | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| | **$m** | $m | **$m** | $m | **$m** | $m |
| **A. RECONCILIATION OF MOVEMENTS** | | | | | | |
| At the beginning of the financial year | **993** | 967 | **2,608** | 2,534 | **3,601** | 3,501 |
| Costs deferred | **2,089** | 1,983 | **5,275** | 4,945 | **7,364** | 6,928 |
| Amortisation charged to profit | **(2,046)** | (1,956) | **(5,063)** | (4,868) | **(7,109)** | (6,824) |
| Net foreign exchange movements | **(6)** | (1) | **(16)** | (3) | **(22)** | (4) |
| Deferred costs at the end of the financial year | **1,030** | 993 | **2,804** | 2,608 | **3,834** | 3,601 |

(1) The carrying value of deferred acquisition costs includes $1 million (2021: $3 million) which is expected to be amortised more than 12 months from reporting date.

(2) The carrying value of deferred outwards reinsurance expense includes $41 million (2021: $49 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

| | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| **A. COMPOSITION** | | |
| **I. Premium receivable** | | |
| Gross premium receivable | **4,155** | 3,920 |
| Provision for expected credit losses | **(52)** | (47) |
| Net premium receivable | **4,103** | 3,873 |
| **II. Trade and other receivables(1)** | | |
| Reinsurance recoveries on paid claims | **150** | 170 |
| Investment-related receivables | **204** | 109 |
| Trade and other debtors | **123** | 202 |
| Trade and other receivables | **477** | 481 |
| | **4,580** | 4,354 |

(1) 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.

### 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

| | 2022 $m | 2021 $m |
|---|---|---|
| **A. COMPOSITION** | | |
| **I. Reinsurance premium payable**(1) | **1,292** | 1,194 |
| **II. Trade creditors**(2) | | |
| Commissions payable | **269** | 261 |
| Stamp duty payable | **153** | 141 |
| GST payable on premium receivable | **201** | 192 |
| Other indirect taxes(3) | **153** | 160 |
| Other(3) | **182** | 207 |
| | **958** | 961 |
| **III. Other payables**(2) | | |
| Other creditors and accruals(3) | **272** | 349 |
| Levies payable(3) | **312** | 320 |
| Investment creditors | **176** | 148 |
| Interest payable on interest-bearing liabilities | **3** | 3 |
| | **763** | 820 |
| | **3,013** | 2,975 |

(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 $1,316 million (2021: $1,257 million) and the combined 12.5% quota share agreement counterparties of $833 million (2021: $795 million), which have been offset with receivables due from BH of $805 million (2021: $760 million) and the combined 12.5% quota share agreement counterparties of $462 million (2021: $419 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.

(3) Prior year comparatives have been re-presented to disclose separately other indirect taxes and levies payable.

### 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 classes:

- Strategic
- Organisational conduct and customer
- Insurance
- Reinsurance
- Market
- Credit
- Liquidity
- Capital
- Operational
- Regulatory and compliance

The risk classes, 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 (RMS). 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, the control environment, risk and compliance events and issues and risk framework changes.

The RMF is in place to assist the Board and Executives 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 classes 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 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;
- 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;
- 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.

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

#### Climate change

IAG, through its operations, is exposed to the impacts of natural peril events including cyclones, wind, hail, floods, and fire which are inherently unpredictable with regards to frequency and severity. There is a risk that the frequency and/or the severity of such events may continue to increase over time due to climate change. Claims arising out of such natural peril events can be substantial and can adversely affect the Group's financial performance. Reinsurance and underwriting standards are used by the Group to mitigate the potential claims cost arising from natural peril events.

#### COVID-19 and other issues

The financial and social impacts of COVID-19 have the potential to impact IAG and its stakeholders. 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:

- COVID-19 impacts on the broader economy continue to be monitored and their impacts on IAG managed. Both the Australian and New Zealand (NZ) economies have proven to be resilient, however there are several influences that may continue to cause uncertainty. As the global economy recovers from the effects of the COVID-19 pandemic, global economies are experiencing the rapid emergence of higher inflation and increasing interest rates. This is expected to impact claims and operating costs, investment returns and premiums charged to customers, and is being monitored closely.
- There is the potential for financial losses related to business interruption insurance in Australia (refer to Note 2.2 for details of the related provision).
- The conflict in Ukraine has led to changes in the sanctions landscape, and IAG has been able to respond effectively, following our upgraded sanctions monitoring system which was put in place in 2021.
- Capital and market risk – At 30 June 2022, IAG had a CET1 multiple of 0.97 (2021: 1.06) and a PCA multiple of 1.80 (2021: 1.86). 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.
- Insurance risk – Refer to the COVID-19 related disclosures provided in Note 1.2.
- Operational risk – IAG has implemented a hybrid model of working from an office-based work environment as the COVID-19 environment normalises. The shift to a hybrid model changes the profile of certain risks, including managing employee expectations for flexible working, retaining talent in a tight labour market and ongoing employee health and wellbeing. These 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 disrupt the assumptions underpinning IAG's strategy or compromise our ability to set and execute an appropriate 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, Innovation and Underwriting function. This function ensures IAG is accessing data-driven customer insights and reacting to such through the innovation of products and services.

## C. ORGANISATIONAL CONDUCT AND CUSTOMER RISK

Organisational conduct and customer risk (OCCR) is defined as the risk of behaviour or action taken by entities and employees associated with IAG that may have negative outcomes for IAG's customers, staff, communities, and markets in which IAG operates. It includes the risk that products are designed, priced, distributed and managed in a way that does not meet the reasonable needs and objectives of customers.

IAG recognises that by not effectively managing OCCR there can be significant ramifications for stakeholders including employees, officers, directors, customers, clients, operational partners (including outsourced partners), shareholders, the community, government (including at a local, state and federal level), and/or the financial services industry. Impacts include loss of reputation, trust, eroded financial performance and poor customer outcomes. These risks include, but are not limited to, the failure to either identify or remediate issues in a timely manner and failure to adequately protect sensitive customer information.

IAG is committed to managing OCCR with the aim of meeting the reasonable needs and objectives of customers and achieving its purpose to 'make your world a safer place for our customers'. As part of our operations, IAG has committed to meet all applicable industry codes. The IAG Consumer Advisory Board is a dedicated forum that encourages open discussion on priorities identified by consumer representatives, and by IAG. The forum provides information and support to foster a deeper understanding of consumer issues and challenges concerning general insurance.

The Group Customer Equity Steering Committee is a cross divisional forum designed to oversee the implementation of the Customer Equity Program and Group Customer Equity Framework.

## D. INSURANCE RISK

Insurance risk is the risk of unintended financial loss as a result of:
- inadequate or inappropriate underwriting or product design and 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 Standard.

### 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. 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, aimed at ensuring 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 catastrophe reinsurance cover protects IAG's capital by limiting its financial exposure to a single severe event as well as frequency of medium sized events. 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 provides 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 | **2022** | 2021 |
|---|---|---|
| | **%** | % |
| a. REGION | | |
| Australia | **78** | 78 |
| New Zealand | **22** | 22 |
| | **100** | 100 |
| b. PRODUCT | | |
| Motor | **32** | 32 |
| Home | **29** | 29 |
| Short-tail commercial | **24** | 23 |
| Compulsory Third Party (motor liability) | **5** | 6 |
| Liability | **6** | 6 |
| Workers' compensation | **3** | 3 |
| Other short-tail | **1** | 1 |
| | **100** | 100 |

## E. REINSURANCE RISK

Reinsurance risk is the risk of financial loss as a result 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 a reinsurance department (or virtual captive) in Australia, 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 2022 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 and operates below the Group catastrophe cover;
- excess of loss reinsurances which provide 'per risk' protection for the commercial property and engineering businesses;
- 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;
- 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 are 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 maintained a policy of targeting between 50% and 100% of the foreign exchange risk exposures associated with its investment in Malaysia through designated hedging instruments. For the foreign exchange risk on its investment portfolio, the Group adopts a policy to target a 100% economic hedge (Refer to Note 4.5 for further details on hedge accounting).

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 | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| | **Impact directly to equity** | Impact directly to equity |
| Net investments in foreign operations and related hedge arrangements | | |
| New Zealand dollar | **71** | 104 |
| Malaysian ringgit | **8** | (3) |
| Other currencies where considered significant | **-** | 1 |
| | **79** | 102 |

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 | | **2022** | 2021 |
|---|---|---|---|
| | | **$m** | $m |
| | | **Impact to profit** | Impact to profit |
| Investments – equity, debt/equity hybrids and trust securities and related equity derivatives | +10% | **58** | 68 |
| | -10% | **(57)** | (67) |

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 present value of the insurance liabilities (the insurance liabilities are discounted with reference to the government yields). Movements in interest rates should have a small 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 | | **2022** | 2021 |
|---|---|---|---|
| | | **$m** | $m |
| | | **Impact to profit** | Impact to profit |
| Investments – interest-bearing securities and related interest rate derivatives | +1% | **(141)** | (160) |
| | -1% | **147** | 167 |

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 $7,673 million (2021: $7,434 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* | 2022 | 2021 |
|---|---|---|
| | $m | $m |
| AAA | 5,220 | 4,986 |
| AA | 3,874 | 4,580 |
| A | 220 | 202 |
| BBB | 732 | 773 |
| Below BBB and unrated | 454 | 481 |
| | 10,500 | 11,022 |

* Cash and securities issued with a short-term rating are included in the rating category with the equivalent APRA counterparty grade.

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 place cover with reinsurers with credit ratings of at least Standard & Poor's A- (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 | | 2022 | | 2021 |
|---|---|---|---|---|
| | $m | % of total | $m | % of total |
| AA | 6,034 | 92 | 5,542 | 93 |
| A | 545 | 8 | 425 | 7 |
| Below BBB and unrated | 20 | - | 20 | - |
| Total | 6,599 | 100 | 5,987 | 100 |

Of these, approximately $1,737 million (2021: $1,467 million) is secured directly as follows, reducing the credit risk:
- deposits held in trust: $38 million (2021: $58 million); and
- letters of credit: $1,699 million (2021: $1,409 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 |
| **2022** | | | | | |
| Reinsurance recoveries on paid claims | **148** | **2** | **-** | **-** | **150** |
| 2021 | | | | | |
| Reinsurance recoveries on paid claims | 160 | 6 | - | 4 | 170 |

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 |
| **2022** | | | | | |
| Premium receivable | **4,003** | **73** | **35** | **44** | **4,155** |
| Provision for impairment | **(4)** | **(11)** | **(13)** | **(24)** | **(52)** |
| | **3,999** | **62** | **22** | **20** | **4,103** |
| 2021 | | | | | |
| Premium receivable | 3,778 | 52 | 52 | 38 | 3,920 |
| Provision for impairment | (5) | (4) | (7) | (31) | (47) |
| | 3,773 | 48 | 45 | 7 | 3,873 |

**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 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 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **$m** | $m | **$m** | $m |
| At call | **-** | - | **941** | 2,032 |
| Within 1 year or less | **2,959** | 2,861 | **2,061** | 2,436 |
| Within 1 to 2 years | **1,171** | 1,143 | **1,077** | 1,314 |
| Within 2 to 5 years | **1,550** | 1,594 | **2,199** | 1,374 |
| Over 5 years | **398** | 442 | **4,222** | 3,866 |
| Total | **6,078** | 6,040 | **10,500** | 11,022 |

### 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 |
| **2022** | | | | | | | |
| Principal repayments(1) | **2,016** | **-** | **-** | **-** | **1,612** | **404** | **2,016** |
| Contractual interest payments(1) | | **89** | **89** | **140** | **-** | **-** | **318** |
| Total contractual undiscounted payments | | **89** | **89** | **140** | **1,612** | **404** | **2,334** |
| 2021 | | | | | | | |
| Principal repayments(1) | 1,980 | - | - | - | 1,576 | 404 | 1,980 |
| Contractual interest payments(1) | | 65 | 65 | 175 | - | - | 305 |
| Total contractual undiscounted payments | | 65 | 65 | 175 | 1,576 | 404 | 2,285 |

(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 excessive given the nature, strategies and objectives of the Group, or comprised of a mix of equity, debt, reinsurance, including IAG's 32.5% whole-of-account quota share arrangements, or other expiring sources of capital that is unsuitable or unsustainable due to its cost, structure, flexibility, or our ability to renew or replace on acceptable terms. 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 | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| Common Equity Tier 1 capital (CET1 capital) | **2,364** | 2,635 |
| Additional Tier 1 capital | **404** | 404 |
| Total Tier 1 capital | **2,768** | 3,039 |
| Tier 2 capital | **1,612** | 1,576 |
| Total regulatory capital | **4,380** | 4,615 |
| Total PCA | **2,439** | 2,487 |
| PCA multiple | **1.80** | 1.86 |
| CET1 multiple | **0.97** | 1.06 |

At 30 June 2022, IAG's Insurance Concentration Risk Charge was $211 million (2021: $192 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.

### b. CAPITAL COMPOSITION

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

| CAPITAL MIX | **TARGET** | **2022** | 2021 |
|---|---|---|---|
| | % | % | % |
| Ordinary equity less goodwill and intangible assets | **60-70** | **60.1** | 62.7 |
| Interest-bearing liabilities – hybrid securities and debt | **30-40** | **39.9** | 37.3 |
| Total capitalisation | | **100.0** | 100.0 |

## G. OPERATIONAL RISK

Operational risk is defined as the failure to achieve objectives due to inadequate or failed internal processes, people and systems or from external events.

When controls are inadequate or fail, an operational risk event 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 Group Operational Risk Management Framework, 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 standards 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.

Over the last two years, there has been significant activity undertaken to resolve several operational risk matters, including potential business interruption claims relating to COVID-19 and historic matters pertaining to IAG's pricing systems and processes and payroll-related procedures. There has been continued focus on uplifting operational risk management capability in response to these issues. Refer to Note 2.2 and Note 5.3 for further details on the associated provisions recognised to date.

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, across Australia and New Zealand, the insurance industry has observed an increase in the frequency and scale of regulatory reviews. For example, ASIC, in its Enforcement Update (Report 688) in April 2021 stated that one of its enforcement priorities is misconduct related to insurance. In October 2021, ASIC called on all general insurers to review their pricing systems and controls to prevent consumer harm, and stated that where there are failures, or empty promises about price discounts, ASIC will use the full range of regulatory tools available to protect consumers - including enforcement action. Where a breach has occurred, regulators may impose, or apply to a Court for, fines and/or other sanctions. In recent years, there has been an increase in the number of matters in respect of which the Group engages with its regulators, including in relation to pricing issues which are the subject of ongoing enforcement action as well as regulatory inquiries and investigations.

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).

# 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's capital composition is substantially in the form of securities eligible for inclusion in regulatory capital, therefore IAG's capital mix is primarily determined by its regulatory capital targets.

## NOTE 4.1 INTEREST-BEARING LIABILITIES

| Final Maturity Date | Issue Date | Principal Amount | Section | 2022 Carrying Value $m | 2022 Fair Value $m | 2021 Carrying Value $m | 2021 Fair Value $m |
|---|---|---|---|---|---|---|---|
| **A. COMPOSITION** | | | | | | | |
| **I. Capital nature** | | | | | | | |
| Capital notes | | | | | | | |
| No fixed date | 22 December 2016 | $404 million | B. I | **404** | **412** | 404 | 423 |
| TIER 2 REGULATORY CAPITAL | | | | | | | |
| AUD subordinated term notes | | | | | | | |
| 15 December 2036 | 24 August 2020 | $450 million | B. II | **450** | **442** | 450 | 467 |
| 15 June 2044 | 29 March 2018 | $350 million | B. III | **350** | **349** | 350 | 355 |
| 15 June 2045 | 28 March 2019 | $450 million | B. IV | **450** | **447** | 450 | 463 |
| | | | | **1,250** | | 1,250 | |
| NZD subordinated term notes(1) | | | | | | | |
| 15 June 2038(2) | 5 April 2022 | NZ$400 million | B. V | **362** | **352** | - | - |
| 15 June 2043(2) | 15 June 2016 | NZ$350 million | B. VI | **-** | **-** | 326 | 335 |
| | | | | **362** | | 326 | |
| **II. Operational nature** | | | | | | | |
| Other interest-bearing liabilities | | | | **50** | **50** | 12 | 12 |
| Less: capitalised transaction costs | | | | **(11)** | | (5) | |
| | | | | **2,055** | | 1,987 | |

(1) At the reporting date, the Company recognised accrued interest of $1 million (2021: $1 million) which is presented within trade and other payables.

(2) On 5 April 2022, the Company issued NZ$400 million of subordinated term notes. After allowance for a reinvestment offer applicable to the NZD subordinated convertible term notes issued in 2016, the Company raised a net amount of NZ$212 million.

### B. SIGNIFICANT TERMS AND CONDITIONS

#### I. Capital notes

- distribution rate equals the sum of the three-month bank bill swap rate (BBSW) plus a margin of 4.70% per annum multiplied by (1-tax rate);
- payments of quarterly distributions are non-cumulative and 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; and
- 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.

#### II. AUD subordinated term notes due 2036

- floating interest rate equal to the three-month BBSW plus a margin of 2.45% per annum is payable quarterly; and
- IAG has an option to redeem the notes at face value on 15 December 2026 and on any interest payment date following the first call date and for certain tax and regulatory events (in each case subject to APRA's prior written approval).

#### III. AUD subordinated convertible term notes due 2044

- floating interest rate equal to the three-month BBSW plus a margin of 2.10% per annum is payable quarterly;
- 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); and
- 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.

#### IV. AUD subordinated convertible term notes due 2045

- floating interest rate equal to the three-month BBSW plus a margin of 2.35% per annum is payable quarterly;
- 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); and
- 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.

#### V. NZD subordinated term notes due 2038

- fixed interest rate of 5.32% per annum, payable quarterly;
- IAG has an option to redeem the notes at face value on 15 June 2028 and on any interest payment date following the first call date and for certain tax and regulatory events (in each case subject to APRA's prior written approval); and
- if the notes are not redeemed on 15 June 2028, the interest rate will become the applicable three-month bank bill rate plus a margin of 1.90% per annum.

#### VI. NZD subordinated convertible term notes due 2043

All notes with an aggregate face value of NZ$350 million were redeemed during the financial year.

### C. NON-VIABILITY TRIGGER EVENT

If APRA determines that a non-viability trigger event has occurred in relation to the Company, all (or in some circumstances, some) notes must be converted into ordinary shares of the Company, or, if conversion does not occur when required, written-off.

### D. RECOGNITION AND MEASUREMENT

The interest-bearing liabilities are initially measured at fair value (net of transaction costs) and subsequently measured at amortised cost using the effective interest method. 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 term 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

| | **2022** Number of shares in millions | 2021 Number of shares in millions | **2022** $m | 2021 $m |
|---|---|---|---|---|
| **A. SHARE CAPITAL** | | | | |
| Balance at the beginning of the financial year | **2,465** | 2,311 | **7,386** | 6,617 |
| Shares issued under institutional placement, net of transaction costs | **-** | 129 | **-** | 643 |
| Shares issued under Share Purchase Plan, net of transaction costs | **-** | 25 | **-** | 126 |
| Balance at the end of the financial year | **2,465** | 2,465 | **7,386** | 7,386 |

## B. STRATEGIC RELATIONSHIP WITH BERKSHIRE HATHAWAY (BH)

The strategic relationship with BH is underpinned by a 10-year 20% quota share arrangement across IAG's consolidated insurance business. 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), which required an initial acquisition of 89,766,607 new fully paid ordinary shares of the Company. The terms of the Subscription Agreement were released to the ASX on 16 June 2015, attached to the Appendix 3B on that date. The material terms of the agreement include those summarised below:

### I. Anti-dilution right

On entry by the Company and NICO into the Subscription Agreement, the Company granted NICO a right, subject to certain exclusions, to maintain, by way of a right to subscribe for shares or participate in issues of shares, its percentage interest in the issued share capital of the Company or its pro rata entitlement (as applicable) in respect of a diluting event which occurs or is announced on or after 16 June 2015. These anti-dilution rights cease to apply on 30 June 2025 (or on termination of the Strategic Relationship Agreement and Quota Share Agreement, if earlier).

### II. Standstill agreement

Under the Subscription Agreement, during the standstill period, being the period to 30 June 2025 (or 12 months after termination of the Strategic Relationship Agreement and the Quota Share Agreement, if earlier), NICO agreed that it will not, and that it will procure its affiliates to not, increase BH's, or another party's relevant interest in the securities of the Company to more than 14.9%, subject to certain exemptions.

### III. Third party control transactions

During the stand still period, NICO also agreed that it will not, and that it will procure its affiliates to not, participate in any third party control transaction, unless it is recommended by a majority of the directors of the Company. Under the Subscription Agreement, a third party control transaction includes a takeover offer, scheme of arrangement or other transaction, which, on implementation, would provide a third party with a holding of 50% or more of the issued ordinary share capital in the Company. The Subscription Agreement also contains participation obligations if NICO and its affiliates are entitled to participate in a third party control transaction.

### IV. Lock-up

Under the Subscription Agreement, NICO agreed that it will not, and will ensure that none of its affiliates, dispose of or agree to dispose of, any of the ordinary shares of the Company issued under the Subscription Agreement, subject to certain exceptions. This lock-up restriction applies during the lock-up period, being the earlier of: (i) the period to 30 June 2025; (ii) 3 or 12 months after termination of the Strategic Relationship Agreement and the Quota Share Agreement due to a fault termination event (noting that the time period is dependent on whether the Company or BH terminates due to such fault termination event); (iii) the date on which a third party control event occurs (which will be triggered if a third party acquires a relevant interest of 30% or more of the ordinary shares of the Company, acquires control of the Company in accordance with section 50AA of the *Corporations Act* and has appointed at least 1 director to the board of the Company, but excludes a third party control transaction described above).

## 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 124 thousand (2021: 95 thousand) at an average price per share of $4.62 (2021: $4.75).

### 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

| | 2022 cents | 2021 cents |
|---|---|---|
| **A. REPORTING PERIOD VALUES** | | |
| **Continuing and discontinued operations** | | |
| Basic earnings per ordinary share(1) | **14.09** | (17.82) |
| Diluted earnings per ordinary share(2) | **13.33** | (17.82) |
| **Continuing operations** | | |
| Basic earnings per ordinary share(1) | **14.09** | (17.28) |
| Diluted earnings per ordinary share(2) | **13.33** | (17.28) |

(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.

| | 2022 $m | 2021 $m |
|---|---|---|
| **B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE** | | |
| Profit/(loss) attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share | **347** | (427) |
| Finance costs of dilutive convertible securities, net of tax | **21** | - |
| Profit/(loss) attributable to shareholders of the Parent which is used in calculating diluted earnings per share | **368** | (427) |
| Profit/(loss) from continuing operations attributable to shareholders of the Parent | **347** | (414) |
| Profit/(loss) from discontinued operations attributable to shareholders of the Parent | **-** | (13) |

| | 2022 Number of shares in millions | 2021 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 | **2,462** | 2,396 |
| **Weighted average number of dilutive potential ordinary shares relating to:** | | |
| Convertible securities | **295** | - |
| Unvested share-based remuneration rights supported by treasury shares held in trust | **3** | - |
| | **2,760** | 2,396 |

## NOTE 4.4 DIVIDENDS

| | 2022 Cents per share | 2022 $m | 2021 Cents per share | 2021 $m |
|---|---|---|---|---|
| **A. ORDINARY SHARES** | | | | |
| 2022 unfranked interim dividend paid on 24 March 2022 (2021: 2021 unfranked interim dividend) | **6.0** | **148** | 7.0 | 173 |
| 2021 unfranked final dividend paid on 22 September 2021 | **13.0** | **320** | - | - |
| | | **468** | | 173 |
| **B. DIVIDEND NOT RECOGNISED AT REPORTING DATE** | | | | |
| 2022 70% franked final dividend (2021: 2021 unfranked final dividend) to be paid on 22 September 2022 | **5.0** | **123** | 13.0 | 320 |
| **C. DIVIDEND FRANKING AMOUNT** | | | | |
| Franking credits available for subsequent financial periods based on a tax rate of 30% | | **256** | | 141 |

The consolidated amounts above are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the settlement, after the end of the reporting date, of tax-related balances and the franking credits that will be utilised for dividends determined but not recognised at the reporting date.

The Company, immediately after payment of the final dividend (70% franked), will have $6 million franking credits available for distribution.

The unfranked part of the dividend is declared to be conduit foreign income. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

### 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 2022 interim dividend paid on 24 March 2022 was settled with the on-market purchase of 5.4 million shares priced at $4.84 per share (based on a VWAP for 5 trading days from 21 February 2022 to 25 February 2022 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; 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

| | 2022 Notional contract amount $m | 2022 Fair value asset $m | 2022 Fair value liability $m | 2021 Notional contract amount $m | 2021 Fair value asset $m | 2021 Fair value liability $m |
|---|---|---|---|---|---|---|
| **I. Net investment hedges (hedge accounting applied)** | | | | | | |
| Forward foreign exchange contracts | **737** | **2** | **(13)** | 703 | 6 | (11) |
| **II. Investment-related derivatives (derivatives without hedge accounting applied)** | | | | | | |
| Bond futures | **2,380** | **-** | **-** | 2,722 | - | - |
| Share price index futures | **17** | **-** | **-** | 24 | - | - |
| Forward foreign exchange contracts | **2,636** | **-** | **(74)** | 2,256 | - | (49) |
| **III. Treasury-related derivatives (derivatives without hedge accounting applied)** | | | | | | |
| Forward foreign exchange contracts | **563** | **1** | **(1)** | 957 | 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:

| | | **2022** | | 2021 |
|---|---|---|---|---|
| | **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 | **1** | **43** | 17 | 43 |

During the year, IAG recognised $nil million (2021: 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 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 losses incurred by its Australian and New Zealand operations in prior financial years. 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. The provisions balance also includes amounts in respect of the customer remediation program and payroll compliance review.
- 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 |
| **2022** | | | | | | |
| **A. COMPOSITION** | | | | | | |
| Cost | **2,823** | **1,176** | **152** | **194** | **110** | **4,455** |
| Accumulated amortisation and impairment | **-** | **(687)** | **(152)** | **(181)** | **(24)** | **(1,044)** |
| Balance at the end of the financial year | **2,823** | **489** | **-** | **13** | **86** | **3,411** |
| **B. RECONCILIATION OF MOVEMENTS** | | | | | | |
| Balance at the beginning of the financial year | **2,829** | **285** | **1** | **17** | **88** | **3,220** |
| Additions acquired and developed | **14** | **220** | **-** | **2** | **-** | **236** |
| Amortisation | **-** | **(17)** | **(1)** | **(6)** | **-** | **(24)** |
| Net foreign exchange movements | **(20)** | **1** | **-** | **-** | **(2)** | **(21)** |
| Balance at the end of the financial year | **2,823** | **489** | **-** | **13** | **86** | **3,411** |
| 2021 | | | | | | |
| **A. COMPOSITION** | | | | | | |
| Cost | 2,829 | 959 | 154 | 193 | 112 | 4,247 |
| Accumulated amortisation and impairment | - | (674) | (153) | (176) | (24) | (1,027) |
| Balance at the end of the financial year | 2,829 | 285 | 1 | 17 | 88 | 3,220 |
| **B. RECONCILIATION OF MOVEMENTS** | | | | | | |
| Balance at the beginning of the financial year | 2,862 | 177 | 2 | 5 | 88 | 3,134 |
| Additions acquired and developed | - | 125 | - | 15 | - | 140 |
| Disposal through sale of businesses | (14) | - | - | - | - | (14) |
| Amortisation and impairment* | (15) | (17) | (1) | (3) | - | (36) |
| Net foreign exchange movements | (4) | - | - | - | - | (4) |
| Balance at the end of the financial year | 2,829 | 285 | 1 | 17 | 88 | 3,220 |

* IAG recognised an impairment of $15 million on the goodwill associated with the Victorian workers' compensation business as a result of its exit in its role as agent in FY21.

## C. 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 and other economic factors, 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. 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:

| | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| Direct Insurance Australia | **622** | 622 |
| Intermediated Insurance Australia | **1,558** | 1,558 |
| Australia | **2,180** | 2,180 |
| New Zealand | **643** | 649 |
| | **2,823** | 2,829 |

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 the latest three-year management business plans and then trend to the long-term assumptions to cover a 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 2022 are: Direct Insurance Australia 3.7% (2021: 3.7%), Intermediated Insurance Australia 3.2% (2021: 3.5%) and New Zealand 3.5% (2021: 3.5%).
- Discount rates reflect a beta and equity risk premium appropriate to IAG, with risk adjustments for individual segments and countries where applicable. The pre-tax and post-tax discount rates used for significant CGUs as at 30 June 2022 are set out in the table below.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Pre-tax** | **Post-tax** | Pre-tax | Post-tax |
| Direct Insurance Australia | **11.5%** | **9.3%** | 11.2% | 9.0% |
| Intermediated Insurance Australia | **11.8%** | **9.3%** | 11.3% | 9.0% |
| New Zealand | **12.4%** | **9.8%** | 12.4% | 9.6% |

### 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.

## D. 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

| | 2022 $m | 2021 $m |
|---|---|---|
| **A. INCOME TAX EXPENSE** | | |
| Current tax | **136** | 231 |
| Deferred tax | **8** | (350) |
| Over-provided in prior year | **(4)** | (6) |
| Income tax expense/(benefit) | **140** | (125) |
| **B. RECONCILIATION OF PRIMA FACIE TAX TO INCOME TAX EXPENSE** | | |
| Profit/(loss) for the year before income tax | **564** | (389) |
| Income tax calculated at 30% (2021: 30%) | **169** | (117) |
| **Amounts which are not deductible/(taxable) in calculating taxable income** | | |
| Difference in tax rate | **(3)** | (43) |
| Impairment not subject to income tax | **-** | 27 |
| Rebatable dividends | **(3)** | (2) |
| Interest on capital notes and convertible preference shares | **6** | 6 |
| Other | **(25)** | 10 |
| Income tax expense/(benefit) applicable to current year | **144** | (119) |
| Adjustment relating to prior year | **(4)** | (6) |
| Income tax expense/(benefit) attributable to profit for the year from continuing operations after impact of tax consolidation | **140** | (125) |
| **C. DEFERRED TAX ASSETS** | | |
| **I. Composition** | | |
| Tax losses | **600** | 622 |
| Insurance provisions | **140** | 132 |
| Provisions | **77** | 127 |
| Property and equipment | **140** | 101 |
| Employee benefits | **88** | 91 |
| Investments | **98** | 33 |
| Defined benefit superannuation plans | **4** | 20 |
| Other | **32** | 30 |
| | **1,179** | 1,156 |
| Amounts set-off against deferred tax liabilities | **(224)** | (179) |
| | **955** | 977 |
| **II. Reconciliation of movements** | | |
| Balance at the beginning of the financial year | **1,156** | 776 |
| Credited to profit or loss | **39** | 345 |
| Credited/(charged) to other comprehensive income* | **(16)** | (1) |
| Credited directly to equity | **-** | 4 |
| Adjustments relating to prior year | **5** | 33 |
| Foreign exchange differences | **(5)** | (1) |
| Balance at the end of the financial year prior to set-off | **1,179** | 1,156 |

* Amounts charged/credited to other comprehensive income relate to the tax effect on remeasurements of defined benefit plans.

### III. Tax losses

The deferred tax assets from tax losses relate to the Australian tax-consolidated group as a result of business interruption insurance reserving and remediation costs, and IAG's New Zealand business as a result of the Christchurch earthquake events that occurred in 2010 and 2011 and the 2016 Kaikoura earthquake. Tax losses carried forward do not expire after a particular period and remain available to offset against future income tax liabilities, provided the continuity of shareholding requirement is met at the listed holding company level.

| | 2022 $m | 2021 $m |
|---|---|---|
| **D. DEFERRED TAX LIABILITIES** | | |
| **I. Composition** | | |
| Investments | **10** | 18 |
| Other | **214** | 161 |
| | **224** | 179 |
| Amounts set-off against deferred tax assets | **(224)** | (179) |
| | **-** | - |
| **II. Reconciliation of movements** | | |
| Balance at the beginning of the financial year | **179** | 201 |
| Charged/(credited) to profit or loss | **47** | (5) |
| Charged to other comprehensive income* | **-** | 7 |
| Adjustments relating to prior year | **(2)** | (24) |
| Balance at the end of the financial year prior to set-off | **224** | 179 |

* Amounts charged/credited to other comprehensive income relate to the tax effect on hedge of net investments in foreign operations.

## 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.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts receivable/(payable) from/(to) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by IAG as an equity contribution or distribution.

All entities in the tax-consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly-owned entities in the case of a default by the head entity. The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed.

## NOTE 5.3 PROVISIONS

| | 2022 $m | 2021 $m |
|---|---|---|
| **A. PROVISIONS** | | |
| Employee benefits | **322** | 384 |
| Restructuring provision | **23** | 20 |
| Customer refunds provision | **309** | 399 |
| Payroll compliance provision | **17** | 63 |
| | **671** | 866 |

**B. EMPLOYEE BENEFITS**

| | 2022 $m | 2021 $m |
|---|---|---|
| **I. Expense recognised in the consolidated statement of comprehensive income** | | |
| Defined contribution superannuation plans | **136** | 119 |
| Defined benefit superannuation plans | **5** | 6 |
| Share-based remuneration | **15** | 13 |
| Salaries and other employee benefits expense | **1,736** | 1,610 |
| | **1,892** | 1,748 |
| **II. Provision recognised on the consolidated balance sheet** | | |
| Short-term and other benefits* | **181** | 206 |
| Long service leave | **118** | 100 |
| Defined benefit superannuation plans | **12** | 67 |
| Executive performance rights | **11** | 11 |
| | **322** | 384 |

* Short-term and other benefits include annual leave entitlements and cash-based incentive arrangements.

The employee benefits provision includes $91 million (2021: $133 million) which is expected to be settled after more than 12 months from reporting date.

**C. RESTRUCTURING PROVISION**

| | 2022 $m | 2021 $m |
|---|---|---|
| Balance at the beginning of the financial year | **20** | 32 |
| Additions | **21** | 26 |
| Amounts settled | **(18)** | (38) |
| Balance at the end of the financial year | **23** | 20 |

The provision primarily comprises restructuring costs in respect of operating model changes in Australia and New Zealand. All provisions outstanding at the reporting date are expected to be settled within 12 months (2021: all).

**D. CUSTOMER REFUNDS PROVISION**

| | 2022 $m | 2021 $m |
|---|---|---|
| Balance at the beginning of the financial year | **399** | 270 |
| Additions | **43** | 245 |
| Amounts utilised | **(133)** | (116) |
| Balance at the end of the financial year* | **309** | 399 |

* This balance includes an offsetting amount of $3 million (2021: $9 million) in respect of recoverable indirect taxes.

This provision relates to multi-year pricing issues identified by IAG as part of a proactive review of its pricing systems and related business processes.

On 15 October 2021, IAG advised that ASIC had commenced civil penalty proceedings in the Federal Court of Australia alleging contraventions of the *ASIC Act 2001* and the *Corporations Act 2001* by Insurance Australia Limited (IAL), a wholly-owned subsidiary of IAG. The proceedings relate to IAL's failure to pass on the full amount of discounts to a significant number of NRMA Home, Motor, Caravan and Boat Insurance customers between March 2014 and September 2019. IAG identified this issue as part of a review in 2019 and self-reported the issue to ASIC. IAG is closely working with ASIC through the remediation program in respect of this issue. The customer refunds associated with these proceedings are covered by the customer refund provision that was established in the 2020 and 2021 financial years, which also covers other products and pricing-related matters.

During the current year, the net reduction in the provision of $90 million relates to the net impact of ongoing remediation payments to impacted customers and the incurrence of costs associated with running the program and the recognition of additional amounts for pricing and related matters. The gross customer refunds provision was $309 million at 30 June 2022 (2021: $399 million). The provision comprises premium refunds, interest attributable to those refunds, the cost of administering the associated remediation program and other pricing-related matters. The appropriateness of all underlying assumptions continues to be reviewed as the remediation program and ASIC civil penalty proceedings progresses and adjustments will be made to the provision, including for any civil penalty, where required.

The customer refunds provision is expected to be settled within 12 months from reporting date (2021: $292 million).

| | 2022 $m | 2021 $m |
|---|---|---|
| **E. PAYROLL COMPLIANCE PROVISION** | | |
| Balance at the beginning of the financial year | **63** | - |
| Additions | **-** | 71 |
| Amounts utilised | **(46)** | (8) |
| Balance at the end of the financial year | **17** | 63 |

This provision relates to a retrospective compliance review across a number of IAG's payroll-related procedures connected to primary and ancillary legislative and key entitlement obligations.

During the current year, there has been no net impact to earnings related to changes in the payroll compliance provision, with the reduction in the provision of $46 million relating to the settlement of employee entitlement shortfalls and the incurrence of costs associated with running the program. The payroll compliance provision was $17 million at 30 June 2022 (2021: $63 million). The provision comprises employee entitlement shortfalls, interest applicable to those amounts and the cost of administering the associated remediation program.

The payroll compliance provision is expected to be settled within 12 months from reporting date (2021: $63 million).

## F. RECOGNITION AND MEASUREMENT

The Group recognises provisions when there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the timing and amount of the obligation.

### 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 refunds provision

A provision is recognised for the expected and currently known 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, the costs associated with operating the associated remediation program and related matters. The appropriateness of all underlying assumptions continues to be reviewed as the remediation program and ASIC civil penalty proceedings progresses and adjustments will be made to the provision, including for any civil penalty, where required.

The insurance industry, including IAG, is highly regulated and has been the subject of increasing scrutiny by regulators. In recent years, there has been an increase on the number of matters on which the Group engages with its regulators, including in relation to pricing issues and which is the subject of ongoing inquiries and investigations.

#### VIII. Payroll compliance provision

A provision is recognised for the expected costs associated with the payroll compliance review. In establishing this provision, assumptions have been made around the quantum of the underpayment of some employee entitlements, interest applicable to those amounts and the cost of administering 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 |
| **2022** | | | | |
| Balance at the beginning of the financial year | **454** | **15** | **3** | **472** |
| Additions to right-of-use assets | **31** | **-** | **1** | **32** |
| Depreciation and impairment | **(72)** | **(9)** | **(1)** | **(82)** |
| Derecognition of right-of-use assets | **(9)** | **-** | **-** | **(9)** |
| Net foreign exchange movements | **(1)** | **-** | **-** | **(1)** |
| Balance at the end of the financial year | **403** | **6** | **3** | **412** |
| 2021 | | | | |
| Balance at the beginning of the financial year | 507 | 21 | 3 | 531 |
| Additions to right-of-use assets | 68 | 3 | 1 | 72 |
| Depreciation | (75) | (9) | (1) | (85) |
| Derecognition of right-of-use assets | (46) | - | - | (46) |
| Balance at the end of the financial year | 454 | 15 | 3 | 472 |

In 2021, derecognition of the right-of-use assets mainly pertains to lease surrenders undertaken during the year.

#### II. Lease liabilities

| | 2022 | 2021 |
|---|---|---|
| | $m | $m |
| Current | **74** | 79 |
| Non-current | **455** | 506 |
| Carrying value of lease liabilities | **529** | 585 |
| | | |
| Due within 1 year | **88** | 93 |
| Due within 1 to 2 years | **81** | 83 |
| Due within 2 to 5 years | **188** | 195 |
| Due after 5 years | **230** | 267 |
| Total undiscounted lease liabilities | **587** | 638 |

#### III. Net investment in sub-lease

The Group has leased out certain portions 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 $36 million (2021: $32 million) which is presented within trade and other receivables in the consolidated balance sheet.

### B. AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

| | 2022 | 2021 |
|---|---|---|
| | $m | $m |
| Depreciation and impairment (included in underwriting expense and fee-based, corporate and other expenses) | **(82)** | (85) |
| Interest expense (included in finance costs) | **(16)** | (18) |
| Expense relating to short-term leases (included in underwriting expense and fee-based, corporate and other expenses) | **(7)** | (4) |
| Interest income from sub-leasing right-of-use assets (included in fee and other income) | **1** | 1 |

#### C. AMOUNTS RECOGNISED IN THE CASH FLOW STATEMENT

| | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| Total cash outflow for leases | **102** | 104 |

#### 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.

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;
- restoration costs;
- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability.

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 DISCONTINUED OPERATIONS

During December 2021, IAG completed the sale of its 80.64% interest in its Vietnam subsidiary, AAA Assurance Corporation, for a net consideration of $15 million, which resulted in the recognition of an after-tax gain of $1 million. The performance of this operation was included up to the completion date.

| | 2022 $m | 2021 $m |
|---|---|---|
| **A. RESULTS OF DISCONTINUED OPERATIONS** | | |
| Revenue | **11** | 14 |
| Expenses | **(12)** | (27) |
| Loss before income tax | **(1)** | (13) |
| Income tax expense | **-** | - |
| Loss for the year from discontinued operations | **(1)** | (13) |
| Gain on sale of subsidiaries after income tax | **1** | - |
| Loss from discontinued operations | **-** | (13) |
| Other comprehensive income, net of tax | **-** | - |
| Total comprehensive loss from discontinued operations | **-** | (13) |
| Loss for the year attributable to shareholders of the Parent | **-** | (13) |
| Loss for the year from discontinued operations | **-** | (13) |
| Total comprehensive loss for the year attributable to shareholders of the Parent | **-** | (13) |
| Total comprehensive loss from discontinued operations | **-** | (13) |
| **B. EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS** | | |
| Basic earnings per share, from discontinued operations – cents per share | **-** | (0.54) |
| Diluted earnings per share, from discontinued operations – cents per share | **-** | (0.54) |
| **C. CASH FLOW FROM DISCONTINUED OPERATIONS** | | |
| Net cash flows from investing activities* | **(24)** | 7 |
| Net cash flows for the year from discontinued operations | **(24)** | 7 |

* The net cash flows from investing activities for the year ended 30 June 2022 includes a net outflow of $24 million from the sale of IAG's Vietnam operations, which is comprised of the net cash consideration received of $15 million and the cash and cash equivalents disposed which totalled $39 million.

### D. RECOGNITION AND MEASUREMENT

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 6.2 ASSETS AND LIABILITIES HELD FOR SALE

On 19 July 2021, IAG announced that AmGeneral Holdings Berhad (AmGeneral), the Malaysian business in which it held a 49% interest, had signed an Implementation Agreement for the proposed sale of its insurance business to Liberty Insurance Berhad (Liberty). Regulatory approval for the sale was received on 28 June 2022 with final completion of the transaction (including distribution of sale proceeds to IAG through a Court-approved capital reduction) occurring in July 2022.

As a result of the expected sale, IAG's investment in AmGeneral has been reclassified as being held for sale since the 2021 financial year. The assets and liabilities that were classified as held for sale as at 30 June 2021 also include those related to IAG's business in Vietnam. The sale of IAG's operations in Vietnam was completed during the current financial period. Refer to Note 6.1 for further details.

| | 2022 $m | 2021 $m |
|---|---|---|
| Cash held for operational purposes | - | 1 |
| Investments | - | 28 |
| Loan to associate (1) | - | 95 |
| Investment in associate | 342 | 224 |
| Total assets held for sale | 342 | 348 |
| Trade and other payables | - | 11 |
| Outstanding claims liability | - | 3 |
| Unearned premium liability | - | 5 |
| Total liabilities held for sale | - | 19 |

(1) Redeemable cumulative convertible preference shares (disclosed as loan to associate in 2021 above) in AmGeneral held by IAG International Pty Limited (IAGI), a subsidiary of the Company, were converted into ordinary shares on 19 January 2022. This resulted in the reclassification of the loan balance to investment in associate. The conversion occurred in order to facilitate an orderly Court approval process to implement the capital reduction through which all of IAGI's shares in AmGeneral were cancelled on 28 July 2022 to enable IAGI to receive its share of the sale proceeds arising from the disposal of AmGeneral Insurance Berhad to Liberty.

### 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.

## 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% 2022 % | 2021 % |
|---|---|---|---|
| **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 | | |

## 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 | |
|---|---|---|
| | **2022** | 2021 |
| | **$m** | $m |
| **I. Summarised statement of comprehensive income** | | |
| Net premium revenue | **3,816** | 3,660 |
| Profit after tax attributable to the Parent entity | **179** | 358 |
| Profit after tax attributable to non-controlling interest | **77** | 153 |
| Other comprehensive income | **4** | - |
| Total comprehensive income | **260** | 511 |
| **II. Summarised balance sheet** | | |
| Total assets | **5,763** | 5,253 |
| Total liabilities | **(4,656)** | (4,234) |
| Net assets | **1,107** | 1,019 |
| Carrying amount of non-controlling interest | **332** | 306 |
| **III. Summarised cash flow** | | |
| Net cash flows from operating and investing activities | **(420)** | 671 |
| Dividends paid to other IAG entities | **(121)** | (277) |
| Dividends paid to non-controlling interest | **(52)** | (119) |
| Total net cash flows | **(593)** | 275 |

## NOTE 6.5 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 | |
|---|---|---|
| | **2022** | 2021 |
| | **$m** | $m |
| **A. FINANCIAL RESULTS** | | |
| Profit for the year | **769** | 145 |
| Total comprehensive income for the year, net of tax | **769** | 145 |
| **B. FINANCIAL POSITION** | | |
| Current assets | **224** | 424 |
| Total assets | **13,148** | 13,266 |
| Current liabilities | **202** | 380 |
| Total liabilities | **3,020** | 3,440 |
| **C. SHAREHOLDERS' EQUITY** | | |
| Share capital | **7,386** | 7,386 |
| Retained earnings | **2,742** | 2,440 |
| Total shareholders' equity | **10,128** | 9,826 |

### 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 (2021: nil) other than the shareholder representative proceeding filed in the Supreme Court of Victoria (refer to Note 7.1 for further details on contingent liabilities).

**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 (2021: 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

As at 30 June 2022, the Group had the following specific contingent liability to report:

- IAG has been served with a shareholder representative proceeding filed in the Supreme Court of Victoria on behalf of persons who acquired shares in IAG during the period 11 March 2020 and 20 November 2020 (inclusive), in relation to IAG's disclosure of the potential impact of COVID-19 related business interruption claims. It is currently not possible to determine the ultimate financial impact this proceeding may have on IAG, if any. IAG intends to defend the proceeding.

From time to time the Group is exposed to contingent risks and liabilities arising from the conduct of its business including:

- actual and potential disputes, claims and legal proceedings, including litigation arising out of insurance policies and regulatory matters.
- investigations into conduct, including actual and potential regulatory breaches, carried out by regulatory authorities on either an industry-wide or Group-specific basis.
- internal investigations and reviews into conduct, including actual and potential regulatory breaches, carried out by or on behalf of the Group.
- contracts that involve giving contingent commitments such as warranties, indemnities or guarantees.

Such matters are often highly complex and uncertain. 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. Where appropriate, provisions have been made (refer to Note 5.3 for further details on provisions).

## 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 12 August 2022, the Board determined to pay a 70% franked final dividend of 5.0 cents per share. The dividend will be paid on 22 September 2022. The DRP will operate likely by acquiring shares on-market for participants with no discount applied.
- On 1 August 2022, IAG announced that it has been served with a shareholder representative proceeding filed in the Supreme Court of Victoria on behalf of persons who acquired shares in IAG during the period 11 March 2020 and 20 November 2020 (inclusive), in relation to IAG's disclosure of the potential impact of COVID-19 related business interruption claims. IAG intends to defend the proceeding. Refer to Note 7.1 for further details on contingent liabilities.
- On 28 July 2022, IAG completed the sale of AmGeneral Insurance Berhad (AmGeneral), the Malaysian business in which it held a 49% interest, to Liberty Insurance Berhad (announced on 19 July 2021). IAG's share of the sale proceeds was approximately $344 million, received in cash and subject to post-close adjustments. Completion of the sale has contributed an improvement in IAG's regulatory capital position of around $150 million.

# 8. ADDITIONAL DISCLOSURES

**SECTION INTRODUCTION**

This section includes other information that must be disclosed to comply with the Accounting Standards, *Corporations Act 2001* 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

| | **2022** | 2021 |
|---|---|---|
| | **$m** | $m |
| **A. COMPOSITION OF CASH AND CASH EQUIVALENTS** | | |
| Cash held for operational purposes | **350** | 326 |
| Cash and cash equivalents held in investments | **588** | 1,674 |
| Cash and cash equivalents in discontinued operations | **-** | 29 |
| Cash and cash equivalents | **938** | 2,029 |

| | 2022 $m | 2021 $m |
|---|---|---|
| **B. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit/(loss) for the year | **424** | (277) |
| **I. Non-cash items** | | |
| Net (gains)/losses on disposal of subsidiaries excluding transaction costs | **(1)** | 14 |
| Net losses/(gains) on investments | **566** | (271) |
| Amortisation of intangible assets and impairment | **24** | 133 |
| Depreciation of right-of-use assets and property and equipment and impairment | **115** | 134 |
| Other non-cash items | **81** | 16 |
| **II. Movement in operating assets and liabilities** | | |
| Insurance assets | **(973)** | (1,341) |
| Insurance liabilities | **1,062** | 3,075 |
| Net movement in other operating assets and liabilities | **(84)** | (7) |
| Net movement in tax assets and liabilities | **(120)** | (94) |
| Provisions | **(195)** | 228 |
| Net cash flows from operating activities | **899** | 1,610 |

**C. SIGNIFICANT NON-CASH TRANSACTIONS RELATING TO FINANCING AND INVESTING TRANSACTIONS**

On 5 April 2022, the Company issued NZ$400 million of subordinated term notes, of which NZ$188 million was non-cash as a result of the reinvestment offer applicable to the NZD subordinated convertible term notes issued in 2016.

There were no other 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 and deposits at call 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.

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Short-term employee benefits | **13,413** | 13,240 |
| Post-employment benefits | **485** | 405 |
| Other long-term benefits | **107** | 89 |
| Termination benefits | **-** | 1,015 |
| Share-based payments | **4,405** | 9,742 |
| | **18,410** | 24,491 |

#### 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

The Joint Parliamentary Committee inquiry into the Regulation of Auditing in Australia highlighted the disparity and lack of comparability of the external auditor fee remuneration disclosure for ASX Listed Corporates. ASIC are proposing four categories to define external auditor services as the basis of the proposed future disclosure requirements. IAG has aligned its disclosure with ASIC's proposed categories, as set out below:

| | **2022** | 2021 |
|---|---|---|
| | **$000** | $000 |
| **A. KPMG** | | |
| Audit services for the statutory financial reports of the parent and controlled entities | **8,191** | 8,229 |
| Assurance services that are required by legislation to be provided by the external auditor | **716** | 572 |
| Other assurance and agreed-upon-procedures under other legislation or contractual arrangements* | **605** | 602 |
| Other services* | **505** | 989 |
| Total remuneration of auditors | **10,017** | 10,392 |

* Prior year comparatives of other assurance and advisory services have been re-presented to align with ASIC's proposed categories.

In accordance with advice received from the Audit Committee, the Directors are satisfied that the provision of non-audit services provided by KPMG is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied because the Audit Committee or its delegate, in accordance with the pre-approved policies and procedures, has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded that the provision of each service or type of service would not impair the independence of KPMG.

Other assurance services principally include reviews of internal controls systems and assurance and attestation relating to sustainability reporting.

Other services primarily relate to taxation services, including taxation advice (but not advice in relation to tax structuring) regarding Australian/foreign tax legislation and tax returns, as well as reviews of risk assessment processes.

## NOTE 8.4 NET TANGIBLE ASSETS

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| Net tangible assets per ordinary share | **1.12** | 1.23 |

Net tangible assets per ordinary share have been determined using the net assets on the balance sheet including all right-of-use assets, adjusted for non-controlling interests, intangible assets and goodwill.

## NOTE 8.5 IMPACT OF NEW AUSTRALIAN ACCOUNTING STANDARDS ISSUED

### A. ISSUED AND EFFECTIVE

No new Australian Accounting Standards were applicable for the current reporting year.

### 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 2023 | B |
| AASB 2020-1 | Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current | 1 January 2023 | A |
| AASB 2020-3 | Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments | 1 January 2022 | A |
| AASB 2021-2 | Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates | 1 January 2023 | A |
| AASB 2021-5 | Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 | C |
| AASB 2021-6 | Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards | 1 January 2023 | A |
| AASB 2021-7a | Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections [general editorials] | 1 January 2022 | A |
| AASB 2021-7b | Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections [AASB 17 editorials] | 1 January 2023 | A |

| TITLE | DESCRIPTION | OPERATIVE DATE | NOTE |
|---|---|---|---|
| AASB 2021-7c | Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections [deferred AASB 10 and AASB 128 amendments in AASB 2014-10 apply] | 1 January 2025 | A |
| AASB 2022-1 | Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information | 1 January 2023 | B |

TABLE NOTE

A These changes are not expected to have a significant, if any, financial and disclosure impact.

B The changes will have a financial impact, however the full assessment has not been completed yet.

C These changes are not expected to have a significant financial impact, but will result in additional disclosure.

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

*IFRS 17*, the new accounting standard for insurance contracts, was issued by the International Accounting Standards Board (IASB) in May 2017 and adopted as *AASB 17* by the Australian Accounting Standards Board (AASB) on 19 July 2017. *AASB 17* aims to establish consistent principles for the recognition, measurement, presentation and disclosure of all insurance and reinsurance contracts. Since the standard was first issued, various implementation matters have been raised by stakeholders. Subsequently, the IASB issued further amendments to the standard in June 2020 and December 2021, including delaying its effective date, which for IAG means the standard is applicable to reporting periods from 1 July 2023. These amendments have since been adopted by the AASB.

For IAG, *AASB 17* replaces *AASB 4 Insurance Contracts* and *AASB 1023 General Insurance Contracts*. The first applicable reporting period for IAG is for the year ending 30 June 2024, with a restated comparative period for the year ending 30 June 2023. IAG does not intend to early adopt *AASB 17*.

IAG continues to assess the impact of the application of *AASB 17*, with the relevant key areas of consideration set out below.

- Measurement models – *AASB 17* introduces the general measurement model, also known as the building block approach, which consists of fulfillment cash flows and a contractual service margin. The fulfillment cash flows represent the risk-adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting, and an explicit risk adjustment for non-financial risk. The contractual service margin represents the unearned profit from in-force contracts that an entity will recognise as it provides services over the coverage period. The contractual service margin is earned based on a pattern of coverage units, reflecting the quantity of benefits provided, which may differ from the pattern of incidence of risk used to earn gross written premium under *AASB 1023*. For contracts measured under the general measurement model, *AASB 17* is expected to have a significant impact on actuarial modelling as more granular cash flow projections and regular updates of assumptions will be required.

  The premium allocation approach is a simplified approach an entity may choose to adopt when certain criteria are met, either where the liability for remaining coverage under the premium allocation approach is not expected to differ materially from that under the general measurement model or the coverage period of contracts are less than one year. However, the general measurement model remains applicable for the measurement of the liability for incurred claims, whereby all incurred claims are subject to discounting and risk adjustment. In determining the cash flows used in the measurement of the liability for incurred claims, IAG intends to consistently maintain the reserving approach currently adopted under *AASB 1023*. The simplification relates to the measurement of the liability for remaining coverage, which is not disaggregated into fulfillment cash flows and a contractual service margin, but rather is largely based on premium received. In this regard, the premium allocation approach has similarities to the current accounting requirements for general insurance contracts under *AASB 1023*.

  IAG intends to use, to the extent permissible by *AASB 17*, the premium allocation approach for both insurance and reinsurance contracts. IAG is nearing completion of its detailed impact assessment and has indicatively determined that the Group is expected to be eligible to apply the premium allocation approach to insurance contracts issued and to its non-proportional reinsurance contracts held. This indicative outcome is based on the latest assessment undertaken and current portfolio mix. A full eligibility assessment of the remaining contracts is in progress, with primary focus on determining the measurement model applicable to IAG's multi-year whole-of-account reinsurance contracts.

  For groups of contracts that apply the premium allocation approach and have a coverage period of one year or less, *AASB 17* provides an option to recognise any insurance acquisition costs as expenses when incurred. IAG does not currently intend to apply this option and so continue to amortise acquisition costs over the coverage period of the related insurance contracts, consistent with current accounting treatment under *AASB 1023*. This outcome is subject to IAG finalising its assessment.

- Level of aggregation and onerous contract losses (loss component) – Under *AASB 17*, measurement is not considered at the individual contract level, but on the basis of portfolios which comprise contracts subject to similar risk and managed together. These portfolios are further subdivided into specified measurement groups based on contracts concluded in annual cohorts and on their profitability.

To determine if the contracts are onerous, the standard permits measurement of a group of contracts. All fulfilment cash flows resulting from the rights and obligations under the insurance contracts must be considered and determined on a gross basis, excluding the effect of reinsurance. As onerous contract testing will be performed at a more granular level than the current Liability Adequacy Test (LAT) under *AASB 1023*, which is at the segment level, it will likely result in a higher transparency of loss-making groups of contracts.

- Risk adjustment – under *AASB 17*, the measurement of insurance contract liabilities will include a risk adjustment for non-financial risk to reflect the compensation that the entity requires for bearing the uncertainty relating to the amount and timing of future cash flows. For insurance contracts, this is the compensation required to be indifferent between either fulfilling a liability that has a range of possible outcomes arising from non-financial risk and fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts. The risk adjustment replaces the concept of a risk margin under *AASB 1023*, which reflects the inherent uncertainty in the central estimate of the present value of the expected future payments. Similar to the risk margin, the risk adjustment includes the benefit of diversification.

  The Standard does not prescribe techniques for estimating the risk adjustment but does offer guidance. The technique used, and the corresponding confidence level associated with the methodology selected, will need to be disclosed. The finalisation of the methodology for determining the risk adjustment, and the corresponding confidence level, is ongoing and subject to further refinement and review. In addition, IAG continues to give due consideration to evolving industry interpretation.

- Discount rates – *AASB 17* requires that the estimates of expected cash flows that are used to measure either the liability for remaining coverage, for contracts measured under the general measure model, or incurred claims are to be discounted to reflect the time value of money and the financial risks related to those cash flows. This aligns to the requirements under the existing standard, *AASB 1023*, as the cash flows underpinning the outstanding claims liability are currently discounted using the risk-free rate. In addition, the standard also requires the discount rate to reflect the liquidity characters of the underlying insurance contracts. The standard does not prescribe a methodology to determine either the discount rate or illiquidity premium. The methodology and impact of reflecting illiquidity within discount rates is currently being determined.

- Presentation and disclosure – *AASB 17* will impact IAG's consolidated financial statements compared with existing reporting requirements, introducing substantial changes in both presentation of the statement of comprehensive income and balance sheet, as well as more granular disclosure requirements.

  In the statement of comprehensive income, *AASB 17* will require the presentation of the insurance revenue and insurance service expenses gross of reinsurance. For IAG, insurance revenue replaces gross earned premium and insurance service expenses largely reflects the combination of claims expense, non-reinsurance related recoveries, commission expense and underwriting expenses. Additionally, all changes in value because of either the effect of or change in the time value of money or financial risk, will no longer form part of the insurance service result but will be recognised separately as either insurance finance income or expenses.

  On balance sheet, as all cash flows resulting from the rights and obligations under insurance and reinsurance contracts must be taken into account under *AASB 17*, the related existing balance sheet items will no longer be presented separately. Alternatively, the standard requires these associated balances to be combined into single line items for portfolios of insurance or reinsurance contracts that are either in an asset or liability position.

  In order to reconcile the movement in these insurance contract liabilities and reinsurance contract assets, the standard requires detailed disclosures that presents the changes to each of the individual measurement components. The notes covering the risks from insurance contracts are expected to remain broadly similar.

  *AASB 17* contains an option regarding recognition of a component of insurance finance income or expenses either in profit or loss or other comprehensive income. IAG currently does not intend to apply the latter option and expects to recognise all elements of insurance finance income or expenses in profit or loss. This aligns to the current approach under *AASB 1023* and would continue to ensure the most effective matching with valuation changes in the investment portfolio, which is measured at fair value through profit or loss.

- Transition – On transition, IAG expects to apply the full retrospective approach to all insurance contracts, except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach may be applied under *AASB 17*. In practical terms, IAG currently anticipates adopting a full retrospective approach to contracts measured using the premium allocation approach and, if applicable, the modified retrospective approach to contracts potentially measured using the general measurement model. This position is dependent on the final outcome of the assessment to determine the applicable measurement model for IAG's multi-year whole-of-account reinsurance contracts.

Regulators, including the Australian Prudential Regulation Authority (APRA) and Australian Taxation Office (ATO) are also considering their response to the new standard and there continues to be market developments as a result of the evolving interpretations and other changes. IAG continues to monitor these developments and to assess the financial impacts of these. On 13 December 2021, the APRA released a number of draft prudential standards with the purpose of integrating *AASB 17* into the general insurance capital and reporting frameworks. This was after seeking industry feedback to its discussion paper published in November 2020. APRA's objective, throughout this consultation, has been to minimise undue burden on industry, and seek capital neutrality where possible and appropriate. The final impact on capital requirements remains uncertain, pending release of the amended prudential standards which are expected in the first half of the 2023 financial year.

Relevant to IAG's business in New Zealand, the Reserve Bank of New Zealand (RBNZ) is conducting a 10-year post implementation review of the Insurance (Prudential) Supervision Act, which includes a general review of the Solvency Standards and incorporates initial proposals at integrating the New Zealand equivalent of *AASB 17* into the Solvency Standards. The RBNZ issued an Exposure draft of the interim Solvency Standard on 22 July 2021.

IAG has committed appropriate resources and effort into the implementation of *AASB 17* since its issuance. A Group-wide program of work remains ongoing, comprising a multi-disciplinary team. The implementation of the standard involves changes and enhancements in technology, systems, and processes, particularly across IT, finance and actuarial. The program is responsible for setting Group-wide accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing required data and implementing actuarial and finance system changes. A Group-wide Steering Committee provides governance oversight and strategic direction to the implementation program. A number of sub-committees are also in place to provide governance over technical interpretation and accounting policy selection, design, and delivery of the program.

The requirements of *AASB 17* are complex and IAG's expectations noted above are subject to change as it continues to assess the impact of the standard and interpretation developments. However, ultimately *AASB 17* is not expected to change the underlying economics or cash flows of IAG's business but has the potential to impact profit emergence profiles. Alongside the qualitative effects outlined above, IAG continues to assess the quantitative impact of the application of *AASB 17*, with the opening balances at 1 July 2022 currently being compiled in accordance with the standard. Although IAG's *AASB 17* implementation project has made significant progress, as some material judgements are still under consideration and global interpretations remain pending, at this time it is not practicable to reliably quantify the effects on IAG's consolidated financial statements.

#### AASB 2021-5 (target amendments to AASB 112 Income taxes)

The Australian Accounting Standards Board have adopted targeted amendments in *AASB 112* as issued by the IASB in *IAS 12* with an effective date of 1 January 2023 with comparatives adjusted.

The targeted amendments clarify how companies should account for deferred tax on certain transactions, which has an impact for IAG with regards to how the deferred tax associated with leases should be treated on initial recognition. The targeted amendments require that the deferred tax impacts are recognised at the same point as the initial recognition of the right-of-use asset and lease liability of the lease under *AASB 16*. Whilst the financial impact is not expected to be significant there will be additional disclosures of the deferred tax impact on initial recognition of a lease.

# 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 2022 and of its performance, as represented by the results of its operations and its 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 2022.

Signed at Sydney this 12th day of August 2022 in accordance with a resolution of the Directors.

**Nick Hawkins**
Director

# INDEPENDENT AUDITOR'S REPORT

KPMG

## 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 2022 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 2022;
- 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 these requirements.

**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
- Customer refunds 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 ($13,964 million)**

Refer to Note 2.2 of the Financial Report

**The Key Audit Matter**

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;

**How the matter was addressed in our audit**

We involved our actuarial specialists and senior personnel with 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 the accounting standards;
- evaluating the assumptions including loss ratios, claim frequencies, average claim sizes, ultimate claims costs and allowance for future claims inflation, 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);

- judgement is required when considering the Group's application of historical experience of claims development to determine current estimates. This includes the 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 Canterbury earthquakes;
- 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 frequencies and average claim sizes, 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 (D). There are currently elevated inflationary pressures on claims costs which are difficult to estimate. 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 Business Interruption claims as a result of the COVID-19 pandemic. This includes the judgement in respect to the probability of special leave being granted and applications to the High Court of Australia, the estimation of potential losses on a probability-weighted basis and assumptions on the level of economic losses to insured businesses and industries;
- 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.

We involved actuarial specialists to supplement our senior audit team members in assessing this key audit matter.

- comparing the prior year claims liability estimate to actual experience in the current year. We used this information to assess the current year's actuarial assumptions applied in the valuation;
- evaluating scenario analyses prepared by the Group for the estimation of insurance liabilities associated with Business Interruption claims. This includes stress testing the probabilities associated with special leave being granted and policyholders ultimately being successful;
- 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, our industry knowledge and externally observable trends (e.g. published data for large general insurance companies);
- for certain classes of business, we independently projected the gross outstanding claims liability by applying our own actuarial assumptions. We used this re-projection to compare our results to the Group's estimates and challenge significant differences;
- testing key inputs such as claim payments and estimates of unsettled claims in the valuation, financial records and controls by:
  - 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. limits of authority or segregation of duties) within the claims case estimates and claims payments;
  - testing samples of claims case estimates and paid claims to third party evidence (such as quotes or invoices);
- 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 ($7,886 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:

- the Group has a complex range of significant reinsurance contracts which are designed to protect its aggregate exposure to catastrophic claim events. These reinsurance contracts comprise of the whole-of-account quota share arrangements, the catastrophe excess of loss program, adverse development covers in the form of excess of loss contracts, other quota share arrangements and other agreements covering particular exposures, giving rise to our evaluation of multiple features;

**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;
- testing the existence of reinsurance cover and the recognition of a reinsurance recovery asset through checking the scope and terms of a sample of underlying contracts. We did this with reference to accounting standards and our expectations based on past experience;

- implicit dependence on the estimation of gross outstanding claims; and
- the reinsurance arrangements represent a significant portion of assets.

The consideration of the accounting treatment across multiple contracts, assessment of recoverability in line with the reinsurance agreements, reinsurer counterparty credit worthiness and capital strength requires significant effort by our senior personnel.

- 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 to assess 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, payment history of amounts and evaluation of any indicators of disputes with counterparties;
- 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 ($2,823 million)**
Refer to Note 5.1 of the Financial Report

**The Key Audit Matter**

Valuation of Goodwill is a Key Audit Matter as:

- judgement is involved by us in assessing the cash-generating units identified by the Group; and
- our evaluation involves judgement in relation to the Group's forecast cash flows and key forward looking assumptions, in particular discount rates, risk premium, growth rates, profit measures and terminal growth rates. We focused specifically on those cash-generating units 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 are manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling 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 applications.

We involved valuation 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:

- considering the appropriateness of the value in use method applied by the Group in their annual testing of goodwill for impairment against the requirements of the accounting standards;
- comparing the forecast cash flows contained in the discounted cash flow models to Board approved budgets and business plans;
- assessing the accuracy of past budgets to actual cash flows in order to challenge the Group's current forecasts;
- 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;
- 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 possible range. This enabled us to critically challenge the Group's quantification of assumptions and focus our procedures to the most sensitive assumptions;
- evaluating the internally prepared discounted cash flow model. This included assessing the integrity of the models used, including the accuracy of the underlying formulas;
- assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

**Customer Refunds Provision ($309 million)**
Refer to Note 5.3(D) of the Financial Report

**The Key Audit Matter**

Customer refunds 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 against the criteria in the accounting standards;
- judgement is involved in determining a reliable estimate of the amounts which may be paid based on available information, including estimates of related costs;
- customers may be impacted across multiple historic years, with varying pricing implications, adding complexity to the estimate of possible refunds;

**How the matter was addressed in our audit**

Our procedures included:

- obtaining an understanding of the Group's processes for estimating customer refund payments and associated project costs;
- enquiring with the Group regarding ongoing legal, regulatory and other investigation into remediation activities;
- evaluating correspondence with relevant regulatory bodies for consistency to the basis of estimation made by the Group;

- potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

These features and the significance of the remediation program necessitates significant effort by our senior team members.

- evaluating the basis for recognition of a provision and associated costs against the accounting standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. We did this using our understanding of the matter, records of its status and progress, and assessing these against the recognition criteria of the accounting standard;
- testing the valuation and accuracy of the provision by:
  - Assessing and challenging the method, data and key assumptions against our experience;
  - Sample checking data accuracy to underlying systems;
  - Performing model integrity checks;
- testing a sample of customer refund payments to internal and third party evidence (such as refund letters and bank reports) to test the movement in the provision during the year;
- testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Group's documentation and the current regulatory environment. We also checked the features of these exposures against the criteria defining a provision or a contingency in the accounting standards;
- 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 the 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 https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2022, 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 31 to 53 of the Directors' report for the year ended 30 June 2022.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG.

**KPMG**

**Brendan Twining**
Partner

**Andrew Reeves**
Partner

Sydney
12 August 2022

# SHAREHOLDER INFORMATION

Information about Insurance Australia Group Limited (the Company) including its announcements, presentations and reports can be accessed at www.iag.com.au.

## STOCK EXCHANGE LISTINGS

The Company's ordinary shares are listed on the ASX under IAG and its capital notes are listed on the ASX under IAGPD.

In addition to the ASX, the Company has securities listed on the NZX Debt Market under IAGFC. As such the Company is subject to the NZX Listing Rules as a primary listed issuer, subject to certain waivers. The Company has been granted waivers from NZX Listing Rules 3.1.1(b), 3.6, and 3.14.1.

## 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 2022 Annual General Meeting (AGM) of the Company will commence at 9:30am on Friday, 21 October 2022.

## ONLINE VOTING

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2022 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 14 October 2022.

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

The Company 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 2022 | NUMBER OF SHARES | % OF ISSUED SHARES |
|---|---|---|
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 672,500,146 | 27.28 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 327,555,586 | 13.29 |
| CITICORP NOMINEES PTY LIMITED | 190,017,422 | 7.71 |
| BERKSHIRE HATHAWAY T/A | 97,513,199 | 3.96 |
| NATIONAL NOMINEES LIMITED | 94,091,262 | 3.82 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 70,309,803 | 2.85 |
| BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 47,000,547 | 1.91 |
| CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 15,301,168 | 0.62 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C> | 13,551,643 | 0.55 |
| AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED | 9,527,455 | 0.39 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 6,703,436 | 0.27 |
| NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C> | 4,097,789 | 0.17 |
| ARGO INVESTMENTS LIMITED | 3,910,330 | 0.16 |
| MUTUAL TRUST PTY LTD | 3,764,900 | 0.15 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C> | 3,544,084 | 0.14 |
| DJERRIWARRH INVESTMENTS LIMITED | 3,142,221 | 0.13 |
| IAG SHARE PLAN NOMINEE PTY LIMITED <IAG DAP UNALLOCATED ACCOUNT> | 3,024,615 | 0.12 |
| NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C> | 2,155,346 | 0.09 |
| PETER & LYNDY WHITE FOUNDATION PTY LTD <P & L WHITE FOUNDATION A/C> | 2,035,999 | 0.08 |
| CITICORP NOMINEES PTY LIMITED <CITIBANK NY ADR DEP A/C> | 1,735,737 | 0.07 |
| Total for top 20 | 1,571,482,688 | 63.76 |

| RANGE OF ORDINARY SHAREHOLDERS AS AT 7 JULY 2022 | NUMBER OF HOLDERS | NUMBER OF SHARES | % OF ISSUED SHARES |
|---|---|---|---|
| 1-1,000 | 364,672 | 189,396,260 | 7.68 |
| 1,001-5,000 | 237,176 | 456,029,402 | 18.50 |
| 5,001-10,000 | 14,130 | 97,690,622 | 3.96 |
| 10,001-100,000 | 5,757 | 111,645,536 | 4.53 |
| 100,001 and over | 143 | 1,610,338,386 | 65.33 |
| Total | 621,878 | 2,465,100,206 | 100.00 |
| | | | |
| Shareholders with less than a marketable parcel of 115 shares as at 7 July 2022 | 10,227 | 519,697 | |

Holders of fully paid ordinary shares are entitled to vote at any meeting of members of the Company:

- on show of hands, one vote for each shareholder present and each other person present as a proxy, attorney or corporate representative of a member; and
- on a poll, one vote for each fully paid ordinary share that each shareholder present and each other person present as a proxy, attorney or corporate representative of a member holds or represents.

**DIVIDEND DETAILS**

| SHARE CLASS | DIVIDEND | FRANKING | AMOUNT PER SHARE | DRP ISSUE PRICE | PAYMENT DATE |
|---|---|---|---|---|---|
| Ordinary | Interim | Unfranked | 6.0 cents | $4.8388 | 24 March 2022 |
| Ordinary | Final | 70% franked | 5.0 cents | * | 22 September 2022 |

* The DRP issue price for the final dividend is scheduled to be announced on 2 September 2022.

## SUBSTANTIAL SHAREHOLDINGS INFORMATION

| SUBSTANTIAL SHAREHOLDERS AS AT 7 JULY 2022 | NUMBER OF SHARES | % OF ISSUED SHARES |
|---|---|---|
| Ordinary shares | | |
| State Street Corporation | 168,380,152 | 6.83 |
| Blackrock Group | 141,377,642 | 5.74 |
| Perpetual Limited | 149,172,894 | 6.05 |
| Vanguard Group | 123,256,745 | 5.00 |

## IAGPD CAPITAL NOTES INFORMATION

| TWENTY LARGEST CAPITAL NOTE HOLDERS AS AT 7 JULY 2022 | NUMBER OF NOTES | % OF ISSUED NOTES |
|---|---|---|
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 297,084 | 7.35 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 292,298 | 7.23 |
| MUTUAL TRUST PTY LTD | 160,461 | 3.97 |
| CITICORP NOMINEES PTY LIMITED | 118,661 | 2.94 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C> | 90,893 | 2.25 |
| NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C> | 70,616 | 1.75 |
| NATIONAL NOMINEES LIMITED | 69,215 | 1.71 |
| AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS IOOF EMPLOYER SUPER A/C> | 55,973 | 1.39 |
| NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C> | 55,267 | 1.37 |
| NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C> | 41,513 | 1.03 |
| NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C> | 38,333 | 0.95 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 34,308 | 0.85 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 33,395 | 0.83 |
| VISION AUSTRALIA FOUNDATION <VISION AUSTRALIA CREDIT A/C> | 31,956 | 0.79 |
| AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT> | 26,238 | 0.65 |
| SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA A/C> | 25,853 | 0.64 |
| INVIA CUSTODIAN PTY LIMITED <INCOME POOL A/C> | 24,925 | 0.62 |
| FIRST SAMUEL LTD ACN 086243567 <ANF ITS MDA CLIENTS A/C> | 20,408 | 0.50 |
| CITICORP NOMINEES PTY LIMITED <DPSL> | 15,144 | 0.37 |
| AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IDPS A/C> | 13,260 | 0.33 |
| Total for top 20 | 1,515,801 | 37.52 |

| RANGE OF CAPITAL NOTE HOLDERS AS AT 7 JULY 2022 | NUMBER OF HOLDERS | NUMBER OF NOTES | % OF ISSUED NOTES |
|---|---|---|---|
| 1-1,000 | 4,373 | 1,382,529 | 34.21 |
| 1,001-5,000 | 419 | 887,605 | 21.96 |
| 5,001-10,000 | 29 | 196,675 | 4.87 |
| 10,001-100,000 | 21 | 705,952 | 17.47 |
| 100,001 and over | 4 | 868,504 | 21.49 |
| Total | 4,846 | 4,041,265 | 100.00 |
| Capital note holders with less than a marketable parcel of 5 notes as at 7 July 2022 | 8 | 15 | |

Capital note holders have no voting rights in respect of meetings of the Company unless and until ordinary shares are issued to them.

## SHARE RIGHTS

As at 7 July 2022, there were 3,574,959 Deferred Award Rights held by 405 participants, 11,872,966 Executive Performance Rights held by 91 participants, and 23,075 Non-Executive Director Award Rights are held by 2 participants. Details of the employee share rights plans are set out in the Remuneration Report.

# CORPORATE DIRECTORY

## KEY DATES

| | |
|---|---|
| 2022 financial year end | 30 June 2022 |
| Full year results and dividend announcement | 12 August 2022 |
| Final dividend for ordinary shares | |
| ■ Record date | 19 August 2022 |
| ■ Payment date | 22 September 2022 |
| Annual general meeting information | |
| ■ Written questions for the auditor close | 14 October 2022 |
| ■ Proxy return close | 19 October 2022 |
| ■ Annual general meeting | 21 October 2022 |
| Half year end | 31 December 2022 |
| Half year results and dividend announcement | 13 February 2023* |
| Interim dividend for ordinary shares | |
| ■ Record date | 17 February 2023* |
| ■ Payment date | 23 March 2023* |
| 2023 financial year end | 30 June 2023 |
| Full year results and dividend announcement | 21 August 2023* |

* Please note: dates are subject to change. Any changes will be published via a notice to the ASX.

## CONTACT DETAILS

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# FIVE-YEAR FINANCIAL SUMMARY

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| | **$m** | $m | $m | $m | $m |
| Gross written premium | **13,317** | 12,602 | 12,135 | 12,005 | 11,647 |
| Gross earned premium | **12,972** | 12,345 | 12,164 | 11,942 | 11,522 |
| Outwards reinsurance premium expense | **(5,063)** | (4,872) | (4,801) | (4,704) | (3,851) |
| Net premium revenue | **7,909** | 7,473 | 7,363 | 7,238 | 7,671 |
| Net claims expense | **(5,215)** | (4,807) | (5,010) | (4,619) | (4,617) |
| Net underwriting expense | **(1,870)** | (1,798) | (1,757) | (1,716) | (1,877) |
| Underwriting profit(1) | **824** | 868 | 596 | 903 | 1,177 |
| Net investment income on assets backing insurance liabilities | **(238)** | 139 | 145 | 321 | 230 |
| Management reported insurance profit(1) | **586** | 1,007 | 741 | 1,224 | 1,407 |
| Net investment (loss)/income from shareholders' funds | **(105)** | 306 | (181) | 227 | 165 |
| Other income | **132** | 165 | 441 | 111 | 164 |
| Share of net profit of associates(2) | **17** | 35 | 57 | 42 | 31 |
| Finance costs | **(93)** | (89) | (92) | (94) | (82) |
| Corporate and administration expenses(3) | **34** | (1,705) | (404) | (124) | (185) |
| Acquired intangible amortisation and impairment | **(7)** | (108) | (27) | (54) | (90) |
| Profit/(Loss) before income tax | **564** | (389) | 535 | 1,332 | 1,410 |
| Income tax (expense)/benefit | **(140)** | 125 | (37) | (363) | (384) |
| Profit/(Loss) after tax from continuing operations | **424** | (264) | 498 | 969 | 1,026 |
| Profit/(Loss) after tax from discontinued operations | **-** | (13) | (4) | 204 | (25) |
| Net loss attributable to non-controlling interests | **(77)** | (150) | (59) | (97) | (78) |
| Net profit/(loss) attributable to shareholders of the Parent | **347** | (427) | 435 | 1,076 | 923 |
| Cash earnings(4) | **213** | 747 | 279 | 931 | 1,034 |
| Ordinary shareholders' equity ($ million) | **6,163** | 6,246 | 6,077 | 6,404 | 6,669 |
| Total assets ($ million) | **34,083** | 33,449 | 29,694 | 29,286 | 29,766 |
| **KEY RATIOS** | | | | | |
| Gross written premium growth | **5.7 %** | 3.8 % | 1.1 % | 3.1 % | 1.8% |
| Loss ratio(5) | **65.9 %** | 64.3 % | 68.0 % | 63.8 % | 60.2 % |
| Expense ratio(6) | **23.7 %** | 24.1 % | 23.8 % | 23.7 % | 24.5 % |
| Combined ratio(7) | **89.6 %** | 88.4 % | 91.8 % | 87.5 % | 84.7 % |
| Reported insurance margin(8) | **7.4 %** | 13.5 % | 10.1 % | 16.9 % | 18.3 % |
| Underlying insurance margin(9) | **14.6 %** | 14.7 % | 16.0 % | 16.6 % | 14.1 % |
| **SHARE INFORMATION** | | | | | |
| Dividends per ordinary share (cents)(10) | **11.00** | 20.00 | 10.00 | 37.50 | 34.00 |
| Basic earnings per ordinary share (cents)(11) | **14.09** | (17.82) | 18.87 | 46.26 | 39.06 |
| Basic earnings per ordinary share - cash basis (cents)(12) | **8.65** | 31.16 | 12.12 | 40.04 | 43.78 |
| Diluted earnings per ordinary share (cents)(11) | **13.33** | (17.82) | 18.49 | 44.58 | 38.30 |
| Diluted earnings per ordinary share - cash basis (cents)(12) | **8.49** | 28.51 | 12.12 | 38.83 | 42.75 |
| Ordinary share price at 30 June ($) (ASX: IAG) | **4.36** | 5.16 | 5.77 | 8.26 | 8.53 |
| Capital notes price at 30 June ($) (ASX: IAGPD) | **102.00** | 104.57 | 103.54 | 106.95 | 104.67 |
| Issued ordinary shares (million) | **2,465** | 2,465 | 2,311 | 2,311 | 2,367 |
| Issued capital notes (million) | **4** | 4 | 4 | 4 | 4 |
| Market capitalisation (ordinary shares) at 30 June ($ million) | **10,747** | 12,719 | 13,334 | 19,089 | 20,191 |
| Net tangible asset backing per ordinary share ($) | **1.12** | 1.23 | 1.27 | 1.43 | 1.47 |

(1) The amounts for the 2022 and 2021 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.

(2) Share of net profit of associates includes regional support and development costs.

(3) Includes a $200 million pre-tax net impact of the business interruption claim reduction and a $12 million pre-tax net impact of the payroll compliance provision for 2022, and a $238 million pre-tax net impact of the customer refunds provision, a $1,150 million pre-tax net impact of the business interruption claim provision and a $51 million pre-tax net impact of the payroll compliance provision for 2021.

(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 non-cash earnings items (not considered part of the Group's ongoing financial performance).

(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) From the 2021 financial year, IAG's underlying margin definition will no longer factor in an allowance for reserve releases. The prior period comparatives are reported on the previous basis, which included an allowance of 1% of NEP. Underlying margins continue to be adjusted for prior year reserve releases or strengthening, natural peril claim costs above or below related allowances and credit spread gains or losses.

(10) The dividends per ordinary share are partially franked for the 2022 financial year and unfranked for the 2021 financial year, partially franked for the 2019 to 2020 financial years, and fully franked for the 2018 financial year.

(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.

Australia

NRMA INSURANCE SGIO SGIC swann insurance

RACV[1] CGU wfi coles Insurance[2]

New Zealand

STATE NZI ami insurance Lumley

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.